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Statistical Trends: EEC
Exports key to output
recovery, Page 6

World news

Business summary

Winnie Mandela to defy ban order

South African black nationalist leader Winnie Mandela said she would defy an order from Pretoria to return to internal exile and expects to be arrested.

Mandela, in Cape Town to be with her husband Nelson who is recovering from surgery, said she would return to Soweto black township near Johannesburg when he goes back to prison.

Riot police used shotguns and tear gas during a protest in front of the country's four provinces that left four people dead.

NZ opens up to foreign banks

NEW ZEALAND is to allow any financial institution, local or foreign, to operate as a bank. Finance Minister Roger Douglas said the Government would allow banking operations on the sole condition that an applicant had a capital base of NZ\$50m (\$17.5m) and a fully paid-up capital of NZ\$10m. The step is the latest in a series of deregulation moves. Page 20.

US looks beyond Geneva with plan for more summits

BY REGINALD DALE, US EDITOR, IN WASHINGTON

PRESIDENT Ronald Reagan is likely to propose at least two more superpower summits, establishing roughly yearly intervals, when he meets Mr Mikhail Gorbachev, the Soviet leader, in Geneva next week, according to White House officials.

The idea, which is said to have been well received by Moscow, is that the summits should alternate between the US and the Soviet Union, with regular meetings between the two countries' foreign ministers every six months.

Mr George Shultz, the US Secretary of State, said in a television interview yesterday that it was "certainly possible" that agreement could be reached on such a proposal in Geneva. The move is likely to be welcomed by the US's European allies, and particularly by West Germany, which has been urging Mr Reagan to propose regular annual summits.

The plan, however, seems to stem at least in part from the expectation that the Geneva meeting, on November 19 and 20, will itself produce little if any concrete agreement on the important issues of arms control and regional conflicts around the world.

Mr Robert McFarlane, Mr Reagan's national security adviser, said at the weekend that the two sides would even agree to a joint communiqué.

Mr Shultz said that while the two countries would have to report in some way on the meeting, they might choose to do so in different ways.

Washington's aim is now to use the Geneva talks to do little more than lay the foundations of what Mr Shultz described yesterday as "a more constructive, stable relationship" - although minor agreements may be announced on items such as cultural co-operation and consular facilities.

In these circumstances, a senior official said at the weekend, it would be "reasonable to the press" to issue a joint communiqué. "These two countries are starting something. They are not finishing something," he said.

With that limited objective in mind, Mr Reagan went out of his way to be conciliatory in a special 10-minute broadcast beamed to the Soviet people on Saturday, in which he insisted that the US had no hostile intentions towards the Soviet Union and repeated his oft-used phrase that "a nuclear war cannot be won and must never be fought".

Mr Reagan revealed the folksy side of his character with an account of his small-town background as a teenage lifeguard, a radio sports commentator and a Hollywood actor, before launching into a vigorous defence of his Star Wars space defence programme.

"We do not threaten your nation and never will," he said in a message that was translated simultaneously into Russian, and broadcast to an estimated 120m people around the world in 42 other languages. Initial reports suggested that there had been some Soviet jamming of his broadcast, but not a complete blackout.

Mr Reagan praised the Soviet people's heroism in the Second World War and concentrated on the historic alliances between the US and the Soviet Union, rather than their present differences. He called for expanded contacts between the two countries, including the opportunity to communicate on each other's television systems.

Nevertheless, US officials made clear that Mr Reagan was prepared to engage in heated exchanges with Mr Gorbachev in Geneva if necessary. Mr Shultz confirmed that Mr Gorbachev had been "vigorous" and "combative" when he met him in Moscow last week, and said that it was important that the two leaders had a "strong conversation" in Geneva.

Another official said that if Mr Gorbachev was as combative with Mr Reagan as he had been with Mr Shultz, "the President will be vigorous right back. He really enjoys that kind of thing."

Continued on Page 20
The past as a prologue, Page 19

Netherlands to open fully its capital market

BY LAURA RAUN IN AMSTERDAM

THE NETHERLANDS plans to open its capital market completely, beginning in January 1986, in a move aimed at keeping abreast of liberalisation drives elsewhere in Europe and preserving Amsterdam's position as an important financial centre.

Foreign banks will be allowed to lead message issuing syndicates for guilders and Euro-guilder notes, and popular instruments such as floating-rate notes and zero-coupon bonds will be permitted under the measures to be formally unveiled on November 20 by Mr H. Onno Ruding, the Finance Minister.

An official Amsterdam interbank offered rate, like the London interbank offered rate, also may be introduced to reflect the cost of overnight funds.

Also under consideration is a commercial paper market in which prime companies can borrow directly or through dealers from banks, institutional investors and other concerns.

Turnover on the Dutch capital market amounts to around £1 500m a day for all listed domestic guilders and Amsterdam is considered among the most liquid of continental European bond markets.

While Amsterdam clearly ranks behind London, it is similar in size to West Germany and Switzerland.

The Dutch financial markets are already among the freest in Europe, with borrowing allowed in any currency and no capital restrictions.

The Netherlands' move, however, has been expected since West Germany, the country's most direct financial competitor, took similar steps last May. London, with its increasingly dominant role in international finance, is viewed as a significant threat to Amsterdam, while Switzerland and France are also seeking to make their markets more attractive.

Integral to the Dutch liberalisation is the abolition of the central bank's closely regulated calendar of issues in which borrowers must queue for their turn to tap the market. If a borrower declares against issuing his bond or note at the allotted time because of poor market conditions, he must then go to the bottom of the list. From next year a borrower may go to the market at any time, although De Nederlandsche Bank must still approve the issue.

Competition from foreign banks in the Netherlands, especially American banks, has escalated sharply in recent years, and the new capital market opportunities are expected to raise the stakes.

The greater freedom to borrow in guilders also will mean a loosening of De Nederlandsche Bank's tight grip on the currency to keep it from becoming too internationalised.

However, Amsterdam and The Hague see the new measures as the only way to ensure that financial market participants continue to view the Netherlands as the sophisticated money centre that it always has endeavoured to project.

Reagans roll out red carpet for royal superstars

By Reginald Dale in Washington

PRESIDENT Ronald Reagan emerged cheerfully from the White House in a loud tuxedo blazer previously reserved for private Christmas parties, the nation's capital showed off its full foliage in brilliant autumn sunshine, and a pet cockatoo along the royal route insisted "God Save the Queen."

Tens of thousands of girls came close to swooning - not over the Prince of Wales, but the Princess.

After the weeks of media hype and frantic jockeying for position in Washington high society, there was no trace of anticlimax as Britain's young royal superstars finally took their bow at the weekend before a public that ranged in mood from uncritical to adoring.

"The British have landed and all Washington is conquered," the New York Times said. "Charles and Diana take the town by storm," said the Washington Post.

Far from coming to an end with the royal arrival, the superlatives kept flowing. Saturday night's White House guest list may have been the most "stellar" of the Reagan Administration, according to one society writer.

Bright lights in the constellation included actors Clint Eastwood, John Travolta, Tom Selleck and Peter Ustinov, ballet dancer Mikhail Baryshnikov, singer Neil Diamond, and explorer Jacques Cousteau. But the royal party discounted widespread reports that the guests had been largely handpicked by Princess Diana.

With only about 1,500 invited to socialise with the royals during the weekend's events, the uninvited appeared to be adopting a face-saving, low profile. Not so the owner of the local football team, the Redskins, who proudly announced he had declined an invitation to the exclusive lunch hosted by multimillionaire Paul Mellon yesterday. He could not miss watching his team play their most hated foes, the Dallas Cowboys.

The more plebeian of those not invited could console themselves by having their pictures taken on a down-town Washington pavement beside life-sized cardboard figures of the royal pair which replaced the normal figure of a brown-suited Mr Reagan.

The American press trails the royals around Washington recording virtually every word uttered, right down to "I like your blue dress" (Charles), "I'm sorry you had to wait so long" (Diana), and "What happened to her hat?" (a reporter).

Appropriately, though apparently unknown, the Princess arrived

Continued on Page 20

Hijack 'proof'

Italian Defence Minister Giovanni Spadolini said he had proof the hijackers of the Achille Lauro telephoned the headquarters of the Palestine Liberation Organisation in Tunis before seizing the liner last month.

Bhopal accusation

Union Carbide, the US chemicals company, refused to comment on new accusations that the death of more than 2,000 people near its plant in Bhopal, India, was partly caused by cyanide gas released in the leak from the plant last December. Page 3.

Bonn to decide

Indications are increasing that the West German Government will finally give its formal blessing to involvement in the US Strategic Defence Initiative - Star Wars - within the next six weeks. Page 2.

French candidates

France's governing Socialist Party completed its candidate list for National Assembly elections next March, with some seats being allotted to non-socialists sympathetic to the Government. Page 20.

Colombia killings

Colombian left-wing rebels killed 11 soldiers in an ambush in the western province of Cauca, the Defence Ministry said.

Bomb kills six

Six people died when Tamil separatists blew a bus in retaliation for the killing of 53 rebels by Sri Lankan troops, as a ceasefire and peace talks both seemed collapsed. Page 3.

Mafia indictments

Palermo magistrates have indicted a record total of 475 suspects accused of 90 murders, paving the way for the largest Mafia trial in the organisation's history. Page 2.

Marcos rebuffed

Philippine opposition leaders said a proposed post-date resignation by President Ferdinand Marcos was unconstitutional, and called on him to declare the presidency vacant before holding an early election.

Belgian attack

The Belgian Government met in crisis session after a weekend attack on a suburban supermarket left seven dead and 15 wounded. Page 2.

Israel warned

A pledge by Palestine Liberation Organisation chairman Yasser Arafat to refrain from attacks outside occupied Arab territories does not exempt Israel from raids, a PLO leader said. Page 3.

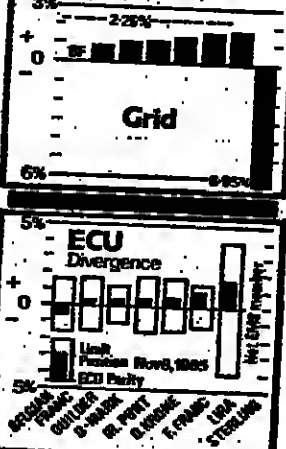
Polish amnesty

Jailed senior activists of the banned Solidarity free trade union appeared to have been excluded from a restricted amnesty announced by the Polish Government, Western diplomats said.

Piggott wins

British jockey Lester Piggott concluded his European horse racing career by winning the £65m (\$37,000) Rome Prize and was presented with a gold medal on behalf of Italian racegoers.

EMS Nov 8, 1985



Oil and dollar worries may affect UK tax cuts

BY PETER HEDDLE AND PHILIP STEPHENS IN LONDON

LOWER oil prices and a weaker dollar have created considerable uncertainty in the UK over the size of the possible income tax cuts in the spring budget which Mrs Margaret Thatcher, Prime Minister, will this evening present as one of the Government's main priorities.

Ahead of the autumn economic statement in the House of Commons tomorrow, Mrs Thatcher will give what is officially billed as a "positive" view of the British economy's growth and inflation in her annual speech to the Lord Mayor's Banquet in the City of London. She is expected to argue that the opportunity for tax cuts has only been created by the Government's firm control over public expenditure.

Mr Nigel Lawson, the Chancellor of the Exchequer, has decided against publishing updated forecasts for tax revenues with the statement. The Treasury's internal projections, however, indicate that oil revenues in 1986-87 are likely to be well below the £11.5bn (\$18.2bn) envisaged last spring.

The Government expects part of the shortfall - put at between £2.5bn and £3.5bn by outside forecasters - to be made up by higher than expected revenue from income

markets, tax reductions on that scale may depend on an increase in the public sector borrowing requirement above the current assumed target for 1986-87 of £7.5bn.

However a fall in oil prices has benefits for the economy as a whole which are not dissimilar to reductions in direct taxation. Recent simulations by the Treasury show that while a 10 per cent drop in oil prices reduces Government revenue by £700m in the first year, it also pushes up economic growth by 0.1 percentage point and reduces the inflation rate by the same amount. The Treasury might therefore be prepared to accept tax cuts of less than the amount originally planned if it expected a separate boost to the economy from lower oil prices.

The additional receipts next year from the accelerated programme of public sector asset sales, probably about £2.5bn to £3bn above previously assumed levels, will be counted as negative public spending and will be used to offset an increase in expenditure by Whitehall departments. The Government has only been able to hold total spending in 1986-87 to the previously planned

Continued on Page 20

Kuwaitis buy stake in Henry Ansbacher

BY DAVID LASCELLES IN LONDON

A GROUP of Kuwaiti investors has bought an 11.9 per cent stake in Henry Ansbacher, the small UK merchant banking group which nearly collapsed earlier this year.

The major partner in the group, Wafra Intervest, is a Kuwaiti Government agency. The cost of the stake is believed to have been about £3m (\$12.7m). Three directors representing the Kuwaiti interests have joined Ansbacher's board.

The shares were acquired from Pargesa, the Belgian-Swiss financial group, which mounted the rescue for Ansbacher last May with a £35m rights issue. As a result, Pargesa's holding will fall from about 75 per cent to around 63 per cent. Pargesa's policy is to hold a con-

trolling but not total interest in the many companies it owns, mostly in Europe and North America.

Ansbacher will today announce a profit of £1.5m before tax in the half-year ending September 30, compared to a loss of £13.1m in the whole of the last trading year, ending last March, when it was racked by losses from its newly acquired Wall Street investment banking firm, Laidlaw Adams and Peck.

Mr Richard Fenhalls, the new chief executive, will also stress the group has made full provision against its doubtful loans, and the divestiture of Laidlaw, from which it is expecting only minimal recoveries. There will be no dividend.

Ansbacher faces crisis, Page 21

Boost for Ulster initiative

BY MARGARET VAN HATTEN IN LONDON

PROSPECTS for an Anglo-Irish agreement giving Dublin a voice in Northern Ireland's policymaking were boosted at the weekend when Mr John Hume, leader of Ulster's Social Democratic and Labour Party, virtually endorsed the package.

Mr Hume, who has been kept fully informed as the negotiations progressed, warned his party at its annual conference, in Belfast, not to expect immediate, dramatic results from any such agreement. But, he added, his party would support any agreement that would help the "process of healing" the rift between the Unionist and nationalist communities.

He gave no indication that he had any reservations as to the content of the agreement. More significantly, he issued a thinly veiled warning to Mr Charles Haughey, leader of the Irish opposition, not to push his

opposition to the deal too far and reminded him of his own statements endorsing the process, made when his Fianna Fail party was in government.

The two governments are expected to make sufficient progress on their remaining differences for the long-awaited summit to take place, probably in the Irish Republic, either on Friday or early next week.

One crucial issue yet to be resolved concerns the siting of a permanent secretariat providing back-up for joint ministerial talks. Dublin insists that that should be set up in Belfast as a clear signal to the nationalist community that its role in the north will be more than symbolic.

But leading Unionist politicians have warned that such a move would, by providing a physical focus, unite the various loyalist fac-

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| | |
|-------------------------|-----------|
| International Companies | 2-3 |
| World Trade | 5 |
| Britain Companies | 7-8, 10 |
| Appointments | 27 |
| Arts - Reviews | 17 |
| World Guide | 17 |
| Construction | 13 |
| Crossword | 38 |
| Currencies | 38 |
| Editorial comment | 21, 24 |
| Financial Futures | 38 |
| Insurance | 12 |
| Int. Capital Markets | 21-22, 24 |
| Law | 12 |
| Letters | 19 |
| Lex | 29 |
| Management | 28 |
| Money Markets | 38 |
| Statistical Trends | 6 |
| Stock markets - Bousses | 35 |
| Wall St | 36-37 |
| London | 30-31 |
| Technology | 25 |
| Unit Trusts | 32-34 |
| Weather | 20 |

| | |
|---|-------------|
| Statistical Trends: growth in the EEC | 6 |
| Editorial comment: EEC technology; British Gas | 18 |
| Buy-outs: still the fashion, but doubts remain | 18 |
| Foreign Affairs: the past as prologue to the summit | 19 |
| Lex: swallowing the bitter pill in US takeovers | 20 |
| Swiss banking: Volksbank's accent on earnings | 27 |
| US uranium: finding a solution to cheap prices | 28 |
| Oman: Survey | Section III |

OVERSEAS NEWS

Pretoria TV ban fails to curb black protests

BY JIM JONES IN JOHANNESBURG

THE TOLL of deaths and injuries continued to rise at the weekend in South Africa in spite of Government hopes that a ban on television coverage would help curb violent black protests.

According to police reports, three black men were killed and three wounded on Saturday night. The reports said that two of the deaths occurred when police opened fire after being attacked by armed men.

A week ago the South African authorities placed a comprehensive ban on television coverage of the countrywide violence, saying that the presence of television cameras acted as a catalyst for violence and alleging that some television crews had paid black youths to riot in front of the cameras.

Deputy information minister Louis Nel backed up these allegations in a television interview last week by quoting a letter in the Daily Telegraph of November 5 purporting to have come from a Mr D. Evans of 10 York Road, Torpoint, Devon.

The writer, who said he had been in South Africa two months ago, claimed to have witnessed a television crew in the black schoolchildren to riot.

Yesterday the Johannesburg Sunday Star disclosed that the letter was bogus. According to the newspaper Torpoint is in Cornwall, not Devon, the two residents of the town named D. Evans state that they did not write to the Telegraph, and the occupants of 10 York Rd are a Mr and Mrs Charles Crocker,

who have lived there for 50 years.

On Friday Mr Nel again repeated allegations that television crews had incited violence, claiming that Government had eyewitness reports from private individuals as well as from police informers working for foreign television networks. He refrained from disclosing the identities of the alleged informants.

In Johannesburg the Foreign Correspondents' Association again called on Mr Nel to provide specific evidence, names and dates of the incidents he alleges were incited by foreign television crews. However, Mr Nel said that disclosure of details would serve no purpose and would lead to a trial by newspaper.

Mr Wanda Mandela, the wife of imprisoned African National Congress leader Nelson Mandela, is reportedly refusing to comply with a her husband's order to return to her home in the Orange Free State town of Brandfort to which she was banished by ministerial decree eight years ago. Mrs Mandela is at present in Cape Town visiting her husband who is in hospital recovering from a prostate operation.

Like all banned people, Mrs Mandela cannot be quoted in South Africa. However she is reportedly determined not to return to the Brandfort house when her husband recovers from his operation and is returned to prison and apparently intends to break the terms of her banning order by moving into her home in Soweto.

Bonn likely to approve SDI involvement by Christmas

BY RUPERT CORNWELL IN BONN

SIGNS are growing that the West German Government, after months of hesitation and internal squabbling, will give its formal blessing to involvement in the US space-based Strategic Defence Initiative (SDI) project within the next six weeks.

Chancellor Helmut Kohl, who has never hidden his support for such an agreement, repeated at the weekend that Bonn would make up its mind "before Christmas", and again made light of accusations that his Cabinet was hopelessly divided on the issue.

More significantly, perhaps, the mass circulation Bild Zeitung newspaper claims today that the Chancellor has finally agreed with Mr Hans Dietrich Genscher, the Foreign Minister, who has all along been the leading government sceptic over SDI, on the shape West German participation should take.

According to the paper, whose report was yesterday described as "speculative" by the government, Bonn's explicit backing would take the form of a letter from Mr Manfred Woerner, the Defence Minister, to Mr Caspar Weinberger, the US Defence Secretary.

This would commit Bonn to the project on the condition that it shared in the results of the research programme, and on the condition that "these results served... civil and

defence purposes only." In order to still fears over the US imposing severe restrictions on SDI technology transfers, both sides would undertake to keep the findings confidential.

Constant reports of strained relations between the Chancellor and Mr Genscher, and the Foreign Minister's liberal Free Democrat (FDP) party have dented the credibility and authority of Mr Kohl and his Government.

Meanwhile the near certainty of Britain reaching final agreement shortly on an SDI deal with Washington has removed one of the strongest objections of Mr Genscher to a similar understanding by Bonn—that West Germany, geographically on the East-West frontline and the home of a strong peace movement, should not be alone among the Western allies in formally endorsing SDI.

Whether or not a formal agreement is signed, opinion in West Germany remains unconvinced. A poll this weekend from the INFAS research institutions showed that 49 per cent of the general public have is against participation in SDI, whether ratified by a government-to-government accord, or merely as individual contracts between the Pentagon and West German companies.

Contadora eager for closer EEC links

THE Contadora group attaches great significance to the prospect of closer economic co-operation between the European Community and Central America as a means to help pacify the region, according to Mr Simon Alberto Consalvi, the Venezuelan Foreign Minister.

Results of next week's meeting in Luxembourg between representatives of the group—Venezuela, Mexico, Colombia and Panama—which is seeking a settlement in Nicaragua and El Salvador and the EEC would be "very important for the success on the ground of the political process underlying Contadora's strategy," he said in an interview here.

After the talks on November 11 and 12 the EEC is expected to announce doubling of its annual aid to the republics of Central America from the present level of Ecu 43m (£23.6m).

The countries concerned were anxious to know what the EEC is going to propose, Mr Consalvi said, pointing out that their gross domestic product had dropped to the lowest point for 20 years and conflict had become a "modus vivendi".

Economic collaboration with the EEC could provide an alternative to the "situation" he said, in which was clearly an appeal for involvement in the regional by industrialised powers other than the U.S. and the Soviet Union.

Mr Consalvi refused to comment publicly on the political implications for Central America of the forthcoming summit between President Reagan and Mr Mikhail Gorbachev, the Soviet Communist Party leader, resulted in a measure of détente and new under-

The Venezuelan Foreign Minister speaks to Richard Johns in Caracas

standings about areas of conflict.

Venezuela and its partners in the Contadora group are clearly unhappy about a settlement being imposed on Central America within such a super-power context.

Last Tuesday President Jaime Lusinchi said that he hoped outside elements involved in the Central American crisis, in particular the US and the Soviet Union, would cease to intervene.

The Venezuelan Government, like its partners in the Contadora group, resents the prospect of any deal on Central America being done by the super-powers, especially one based on a trade-off involving other issues, for instance Afghanistan, being done over the heads of the states of the region.

Referring to the decision by Petroles de Venezuela to lease and operate the Curacao refinery abandoned by the Royal Dutch/Shell, Mr Consalvi accused the group of never being genuinely interested in reaching an agreement which would have made the facility under its ownership using Venezuelan crude as a feedstock.

He said that they had constantly changed their conditions and made proposals relating to price of oil which were "absolutely unacceptable".

Cyanide gas blamed for Bhopal deaths

By Terry Dooleworth in New York

UNION CARBIDE, the US chemicals company, refused to comment yesterday on new accusations that the death of more than 2,000 people near its chemical plant at Bhopal, India, was partly caused by cyanide gas in the leak from the plant last December.

The Connecticut-based company said that it could not comment on the report, based on a confidential survey by Indian doctors until it had seen it.

Up to now, Union Carbide has stuck firmly to its initial scientific analysis that the deaths at Bhopal were caused by poisons from methyl isocyanate.

Several Indian doctors treating Bhopal victims have raised the cyanide issue partly on the grounds that some patients appear to have responded to drugs used to treat cyanide poison. According to US sources, however, the use of the anti-cyanide drugs has not been universally approved by doctors at Bhopal, and there has been some controversy over the effectiveness of these medicines.

PRIVATE SECTOR TO BE GIVEN A BIGGER ROLE

Indian plan aims for 5% annual growth

BY K. K. SHARMA IN NEW DELHI

INDIA'S AMBITIOUS seventh five-year plan for 1985-90, which aims at an annual 5 per cent growth of gross domestic product, was approved by the country's supreme economic decision-making body, the National Development Council, at the weekend.

The plan involves government investment of Rs 1,800bn (£106bn) over the five-year period. As much as 90 per cent of the funds will come from internal sources.

This leaves a gap in investment which it is hoped the private sector, which is to be given a bigger role than before, will fill. The Planning Commission expects private investment to be of the order of Rs 182bn over the five-year period.

The plan aims to reduce the number of people below the poverty line from the present 273m to 211m in 1990. This is still a substantial proportion of the expected population of around 900m at the end of the seventh plan period and is a measure of the gigantic problems of development in Asia's second largest country.

During the plan period, the agricultural sector is expected to grow at an annual rate of 4 per cent in terms of gross output and 2.5 per cent in terms of value added. Foodgrain production is expected to reach 183m tons in the last year of the plan.

The plan aims at an overall annual growth rate of more than 8 per cent in the industry sector. Large and medium industry and mining in the public sector is to get Rs 22.5bn in investment with a substantial part earmarked for schemes already under way. An extremely limited approach has been adopted for new industrial projects.

Altogether, 70 per cent of spending under the plan has been allotted to steel, fertilisers, non-ferrous metals, petrochemicals and cement which are in what is called the "core" sector.

The single largest amount, Rs 54.5bn, goes to the energy sector with as much as Rs 34.3bn devoted to electricity generation. This is in recognition that crippling power shortages are holding back both industrial and agricultural development.

Since other infrastructure constraints on the economy include transport, development of railways and roads has been allotted Rs 23bn.

Agriculture and irrigation, which in the past have enjoyed the lion's share of total spending, have been allocated Rs 10.5bn and Rs 17bn respectively, partly because considerable advances have been made in these areas and further progress is bound to be slower.

Social services, including welfare programmes, get a fairly hefty Rs 29bn, but it is recognised that this can affect just a fringe of the problem in a country the size of India.

The net inflow of foreign resources for the public sector plan has been estimated at Rs 18bn. This is based on projections of the balance of payments covering detailed estimates of imports, exports, current invisibles and capital transactions. The assumed net inflow from abroad constitutes 10 per cent of the total outlay in the public sector.

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PLO 'will use violence in Israel'

BY TONY WALKER IN CAIRO

IN AN apparent contradiction to a statement by Egypt's President Hosni Mubarak, a top Palestinian Liberation Organisation official has said the PLO pledge to renounce violence outside the occupied territories does not include Israel itself.

Mr Salah Khalaf, who is also known as Abu Iyad, said in Cairo yesterday that "as long as our rights are not clearly defined, and as long as Israel

does not acknowledge them so we do not define any place for the purposes of resistance."

"We consider all Palestine as occupied until our enemy acknowledges our existence and acknowledges we have national rights."

Mr Yasser Arafat, chairman of the PLO, announced in Cairo last week that he was renouncing violence outside occupied Arab territories. Egyptian officials, including a top aide to Mr Mubarak, said Mr Arafat's pledge restricted PLO guerrilla activity to the West Bank and Gaza Strip and that Israel was excluded.

Mr Mubarak himself said at the weekend, when asked what Mr Arafat meant by occupied Arab territories, "my understanding is it is the West Bank and Gaza."

Tamils blow up bus as ceasefire nears collapse

A LANDMINE laid by Tamil separatists blew up a bus yesterday in revenge for the killing of 33 guerrillas by Sri Lankan troops as a ceasefire and peace talks on the island's ethnic crisis both seemed to be collapsing. Reuter reports from Colombo.

The Defence Ministry said the guerrillas were killed over the past three days during battles in eastern Trincomalee district where security forces were hunting for rebels who shot dead 10 Sinhalese villagers last Thursday.

He said the guerrillas struck back by setting off a landmine which killed six bus passengers near Sitaru village in Trincomalee.



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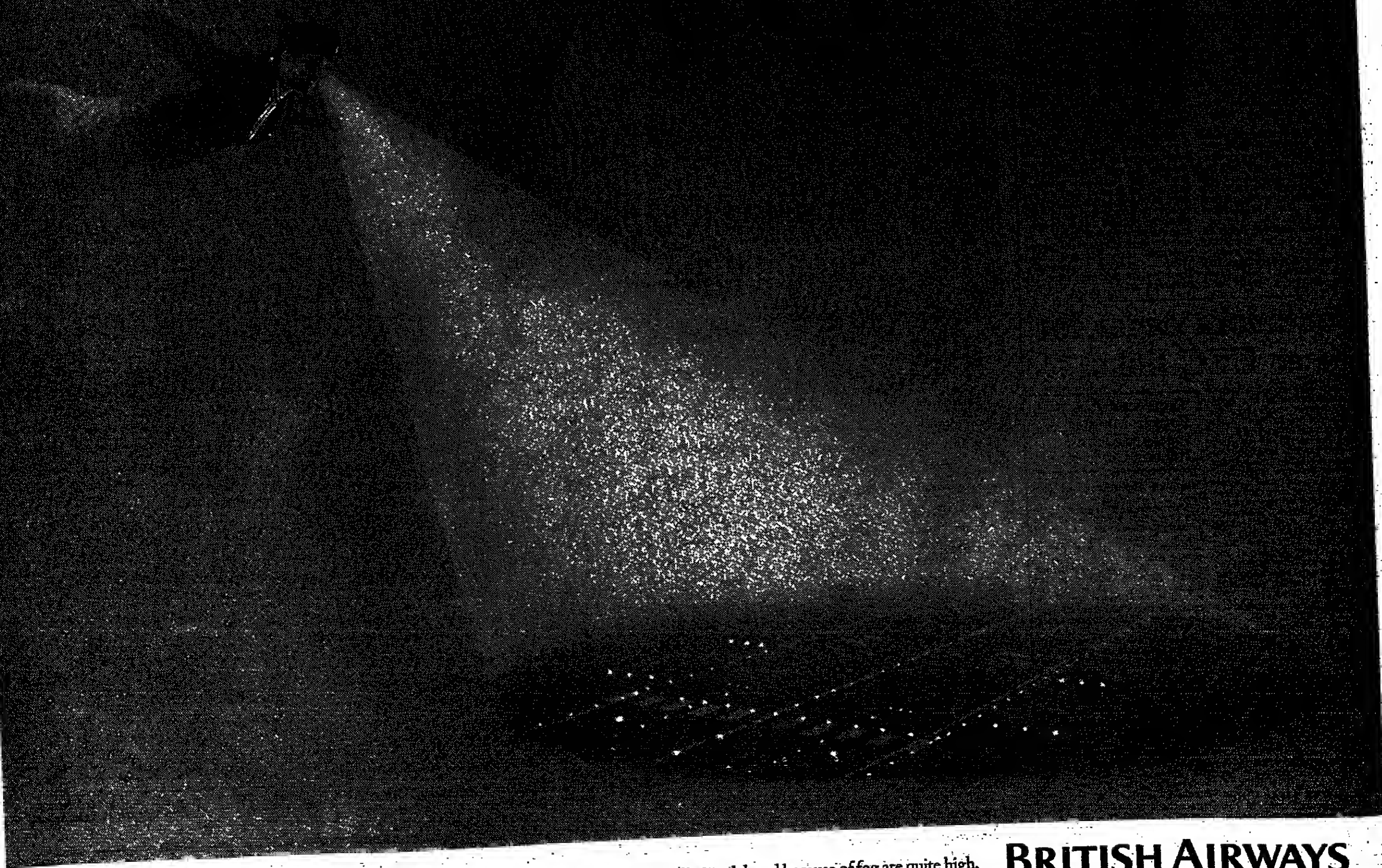
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WORLD TRADE NEWS

China ponders implications of nuclear plant delay

David Dodwell reports that the fierce haggling with GEC and Framatome is unlikely to lead to cancellation ahead—China itself. A foreign economist last week as he watched the fiercely-fought final stages of negotiation between the Chinese Government and the British and French teams who hope to win the \$3.5bn (£2.45bn) nuclear power contract in China's southern Guangdong province.

To be exact, it would be Guangdong province that would be the loser. While it is among the richest in the country, its growth is strait-jacketed by power shortages which will worsen between now and 1992 when the first nuclear unit is due to come on stream.

Negotiations with Framatome of France, who would provide the nuclear island for the 1,800 Mw plant, and GEC of the UK, who would build the conventional power plant, have already stretched through six years. The fierceness of haggling as talks have entered their final stages—climaxing with GEC's decision to shandon the negotiating table and return to the UK two weeks ago only to return to China this week—has aroused fears that a deal may not be agreed.

A compromise still seems likely, and few think China plans to cancel the project, despite indications from Peking that it would prefer to build thermal power plants using

local coal. But further delay is now a real possibility. As a result, officials in Hong Kong and Guangdong, where 21 of the power would be used, are seriously considering the implications.

Officials in Guangzhou, the provincial capital of Guangdong, say that with just 4,000 Mw of installed capacity for a population of about 60m, the province falls about 30 per cent short of current power needs. By comparison, Hong Kong has installed capacity of just over 6,000 Mw for 5.5m.

Most factories in Guangdong are restricted to four-day working weeks, and face constant unplanned "brown outs" when power supplies are restricted. Worst hit are industrial areas like Hsien in the southern Guangdong, and the Shenzhen economic zone on the border with Hong Kong. With hydroelectric plants accounting for 60 per cent of the province's installed power capacity, shortages are most acute in the five-month dry season from October until February.

To cope with shortages, many factories are encouraged to work at night. All manufacturers are allotted electricity quotas. Hotels and continuous process industries that need to run over their quotas have to pay substantial surcharges. Power blackouts would be more frequent if the province

Negotiations between GEC and Framatome of the UK and Chinese officials over the projected nuclear power station for Guangdong province are to restart this week, according to diplomats in Peking, writes Christian Tyler.

The protracted talks were adjourned last month when the parties failed to agree on a price for the generating equipment GEC hopes to provide.

There were conflicting reports about the size of the gap between the two sides. The Chinese were said to have been looking for a discount of 25 per cent. But later reports from London and Hong Kong suggested the price gap was much smaller.

Bankers involved in the credit arrangements say the financing of the estimated

\$3.5bn (£2.45bn) project is virtually complete.

Framatome of France, which is bidding to supply the nuclear reactors, is also expected to resume negotiations this week or next. It had been asked to drop its price by about 20 per cent.

The Chinese have been putting pressure on the suppliers by warning publicly that unless differences could be ironed out quickly they might look for other contractors. This is seen as a greater threat to GEC than to Framatome, since the conventional equipment that GEC is hoping to sell can be bought elsewhere more easily.

The project is a joint venture between Guangdong Nuclear, which has a 75 per cent stake, and Hong Kong Nuclear Investment with 25 per cent.

were not able to buy electricity from China Light and Power, one of Hong Kong's two power generating companies. In its latest financial year, which ended in September, China Light sold Guangdong 988 gigawatt hours of electricity—8 per cent of its output, and a 54 per cent increase on 1984.

Guangdong paid HK\$416m (£40m) for this power, a significant drain at a time of

extreme foreign exchange shortage.

Guangdong's economy has grown by more than 32 per cent over the past 12 months, aggravating power shortages and prompting officials to step on the brakes for fear of making matters worse.

Plans to increase the province's power generating capacity fall far short of growing needs. Negotiations are in pro-

gress for 700 Mw coal-burning installations in Xiaojiao and Zhanjiang, but even if these succeed, the plants would be unlikely to be commissioned before the early 1990s.

Emergency measures are planned to boost capacity by 100 Mw by amalgamating and refurbishing old boilers, but these are clearly palliatives. Even if plans for more thermal plants could be rapidly drafted, the quality of Chinese coal is poor, and Guangdong is far from any of the country's major coalfields. A rail line linking the province with Guizhou, the nearest significant source of coal, is due to be finished at the end of this year.

In this context, talk of delay in commissioning Daya Bay, which would provide Guangdong with about 540Mw of capacity—can hardly be welcomed. It is likely to be difficult enough reining in power demand until 1992 when Daya Bay comes on stream. Delay into 1993 or 1994 would further hobble its infant industries.

For Hong Kong, which is committed to taking 70 per cent of the power generated by Daya Bay (an arrangement made to enable the Chinese to generate the foreign exchange it needs to pay for the project), delay would be irritating but hardly crippling.

"We have rather Rolls-Royce ourselves as far as electricity is concerned," says Hong Kong

official said. In recent years prudent power planning has enabled the Territory to maintain a 30 to 35 per cent margin between maximum demand for power, and installed capacity.

With the first of four new 660 Mw units just commissioned by China Light at Castle Peak, and more modest expansion by Hongkong Electric, this margin is likely to be maintained through to 1992 on Government assumptions that demand for power will continue to grow in the 6 to 8 per cent range.

According to Mr Bill Stones, managing director of China Light, and deputy chairman of the joint venture company that will run the Daya Bay plant, even if talks with GEC and Framatome collapse, and a contract had to be negotiated with other contractors, the delay would not be more than 12 months—hardly enough to cause any serious headaches.

Hong Kong stands to gain from this last-minute brinkmanship between negotiating teams in one important respect. A lower contract cost will almost certainly result in cheaper nuclear power. Worries over the cost of power from Daya Bay have loomed large among the Hong Kong public—second only to concern over the environmental dangers of nuclear power. Electricity may be plentiful in the territory, but it is not cheap.

Peking awards first contract in renewed oil search

BY ROBERT THOMSON IN PEKING

CHINA has finalised the first contract in the second round of bidding for oil exploration rights in the South China Sea.

A group headed by the Japan Petroleum Exploration Company signed the contract last week in Peking with the China National Offshore Oil Corporation for the exploration of a 5,100 sq km section of the Pearl River basin.

The second round of exploration licensing bidding for which closed on July 1, attracted 24 companies. A CNOOC official, Chen Bingjian, said negotiations with other bidders will be completed and contracts signed with some or all by early next year.

Whether the Japanese consortium will win a commercially viable oilfield is debatable. The South China Sea has not produced the bonanza China has predicted. Mr Shigeo Kohzuki, the senior managing director of Japan Petroleum, admitted that his group's previous efforts in two sections of the South China Sea had "failed to discover any petroleum."

"But we got a lot of well data," said Mr Kohzuki. "And

also taking into consideration data from other well blocks, we have big expectations for these new blocks."

The Exploration Company's partners are the Iluonan Oil Field Development Company and Nippon Mining Company.

Success in finding significant reserves of oil is crucial to China's development plans, which are hindered by chronic energy shortages.

Oil exports, currently estimated at between 450,000 and 500,000 barrels a day, are an important source of foreign exchange earnings.

China had toned down its hard bargaining position of the first round of bidding, which began in August 1982. Then the companies had to pay all exploration costs, and, after a discovery, at least 49 per cent of development costs.

The aim of the more favourable terms this time around is to encourage the exploitation of small to medium size finds.

The Japanese companies expect that geophysical surveying of the contract area will begin in the first quarter of next year.

Nissan unveils a car for the future

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE CAR attracting the most attention from European and American visitors to the Tokyo Motor Show, which ends today, is the CUE-X, a "concept" or future car on the Nissan stand.

West Germans say CUE-X looks remarkably like an Audi 200. British visitors insist the style is closer to that of a Jaguar. They agree the Japanese group is presenting a large, luxury car that looks very European in character.

They also see it as a pointer to future Japanese strategy. How long Japan's rivals are asking, will it be before the Japanese seriously invade the upper end of the car market, perhaps even providing competition for BMW, Jaguar and Mercedes?

CUE-X, like most other concept cars, pulls together the latest motor industry technology. Including four-wheel drive, four-wheel steering and air suspension (all electronically controlled) as well as anti-skid braking, run-flat tyres, which enables the car to be driven in an emergency such as a motorway blow-out and a laser radar system to measure the distance to obstacles or vehicles ahead.

But it eschews exotic construction techniques in favour of comfort for the body. As Mr Mark Snowden, Austin Rover's managing director, product development, says: "It is not a Dan Dare vehicle full of fantastic gimmicks and completely out of touch with the real world."

Indeed, Mr Don Kopka, Ford's vice-president in charge of design, suggests CUE-X is "all of a piece" and would not take long to put into production.

Nissan admits it intends to

put a car similar to CUE-X on the market—but not until the early 1990s. According to Mr Tomokazu Tokuda, one of Nissan's general managers in charge of research, much CUE-X technology is either already available on production cars or will be shortly.

CUE-X, obviously is not aimed at the Japanese market because cars of its type attract a large tax penalty which means only the very rich can afford them. Mr Tokuda says Nissan wanted "a luxury car with a roomy interior and of the right size for the international markets."

Of course the market the Japanese are most concerned about is the US.

Honda, which last year sold 374,800 cars in the US against 348,000 in Japan; at this year's show has given the first public viewing of its Legend, the executive car developed jointly with Austin Rover of the UK and which is the first model of such large dimensions from the Japanese company. Honda has set up a separate dealer network in the US, called Acura with 50 outlets, to handle the model.

Honda hopes to sell between 20,000 and 30,000 in the US compared with only 1,500 domestically.

However, Mr Dan Werbin, sales director for Volvo of Sweden's car business, says he has no real cause for concern so far. "The Japanese companies are all trying to outdo one another in technology. At this show they seem to want to put as much power as possible through as many wheels as possible. But they are not paying enough attention to developing clearly defined images for themselves."

VLC rates, already showing signs of firmness in the previous week, again tended to rise slightly higher last week. One VLC of around 240,000 dwt was fixed from Saudi Arabia to Japan at nearly Worldscale 40.

In the dry cargo market, conditions remained dull, reported Denholm Coates. Rates tended to drift with \$13.25 (\$9.20) a ton paid for grain from the US Gulf to Japan.

SHIPPING REPORT

Scrapping level raises hopes of tanker owners

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE SHARP rise in the rate of ship scrapping has lifted spirits in the tanker market. Owners of modern vessels particularly are hopeful of rates improving.

Last week, five VLCCs and ULCCs (very large and ultra large crude carriers) were sold for scrap. These included 423,000 dwt deadweight tonnage, the Borge Emperor and Borge Empress, laid up in Norway.

The ships will be demolished in Taiwan, which has also taken the Esso Osaka for break-up. With world demand for oil still slipping, E. A. Gibson Shipbrokers said independent owners seemed to be emulating oil companies in shedding big tankers.

In October, 15 VLCCs and ULCCs were sold for demolition, five of them by Shell.

Taiwan took 10 of these. The combination of a reduced import tax in Taiwan and competition from Japanese and South Korean shipbreakers kept scrap prices firm.

"October truly turned out to be an exceptional month," said Fearley, the Oslo shipbroker. Seven ships of 6,400 dwt (mostly tankers) were sold for scrap, bringing the total so far in 1985 to 34.6m dwt against 22.8m for the corresponding period of 1984 and 32.7m in the entire record year of 1983.

Gibson said that of the 42m dwt of vessels over 200,000 dwt each, many of the older ones would be disposed of soon. Thus owners of newer ships could hope to obtain profitable employment.

VLC rates, already showing signs of firmness in the previous week, again tended to rise slightly higher last week. One VLC of around 240,000 dwt was fixed from Saudi Arabia to Japan at nearly Worldscale 40.

In the dry cargo market, conditions remained dull, reported Denholm Coates. Rates tended to drift with \$13.25 (\$9.20) a ton paid for grain from the US Gulf to Japan.

Then John admitted he hadn't slept with his micro-computer for months.

Poor John. It was incompatibility. A few months ago, we both bought micros for our businesses. I chose the new Triumph Adler Alphatronic. He was seduced by a rather more obvious name.

Life in pieces

My Alphatronic came complete, a perfect marriage of everything I needed. All the essentials others seem to regard as extras were included as standard, neatly contained in one perfectly designed machine.

Not so John's ill-fated match. His life was, quite literally, in pieces.

He found he needed a separate interface card for every extension he had to make. They were numerous, even including an expansion card for colour and yet another for graphics.

Every time he used an interface card, he used up a precious slot to put it in. Soon, all the slots were used up. So, he couldn't expand anymore.

Endless arguments

Then, things started to go wrong, and because all his extensions came from different places, he had to argue with dealer after dealer to get them put right.

I gently reminded him that life with the Alphatronic presented no such headaches, affording me a single source of support from one, highly-knowledgeable dealer.

What's more, because it's so well-endowed to start with, the Alphatronic has many more



expansion possibilities. I recently added Prestel and a tape-streamer, (which records a whole day's work in twenty minutes), with no trouble at all.

John groaned, defeatedly.

Same old grind, every day

Apart from processing information up to three times faster, thanks to the powerful new Intel 80186 processor (a true 16-bit chip), my Alphatronic also warms up in seconds, rather than the two tedious minutes John's machine takes.

And whereas John says his disc-drives sound like an old washing machine, my Alphatronic is blissfully quiet in comparison.

Irresistibly beautiful

I was always attracted by the Alphatronic's elegant appearance. Ergonomically designed, it's as pleasant to work with as it is to look at. With a keyboard and a screen that are both highly

developed yet simple to use. Just what you'd expect knowing that Triumph Adler is part of the design-conscious Volkswagen Group.

John's choice, on the other hand, left a lot to be desired in this respect.

He's paid the price

On top of everything else, John now has to face the fact that he's paid over the odds for a computer that was always incapable of delivering what he bought it for. Any of the four Alphatronic models, with their different capacities, would have more than satisfied his needs from the start. And any of them would have run all the IBM compatible software he could possibly need.

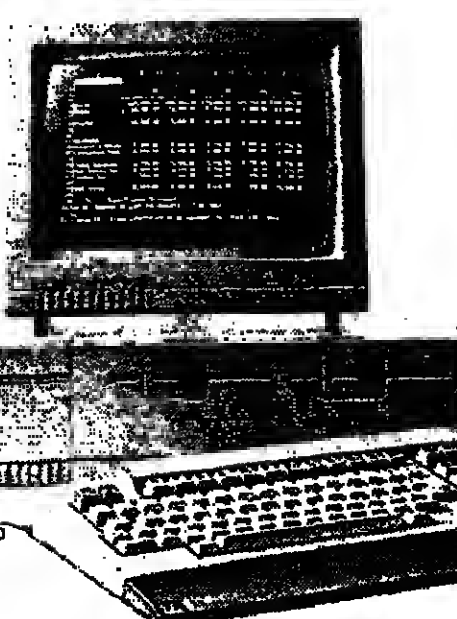
So, John bought his machine to save money, but in the long run, it's really cost him. No wonder he wasn't sleeping. I bought him

another drink and gave him an Alphatronic brochure to read on the train home.

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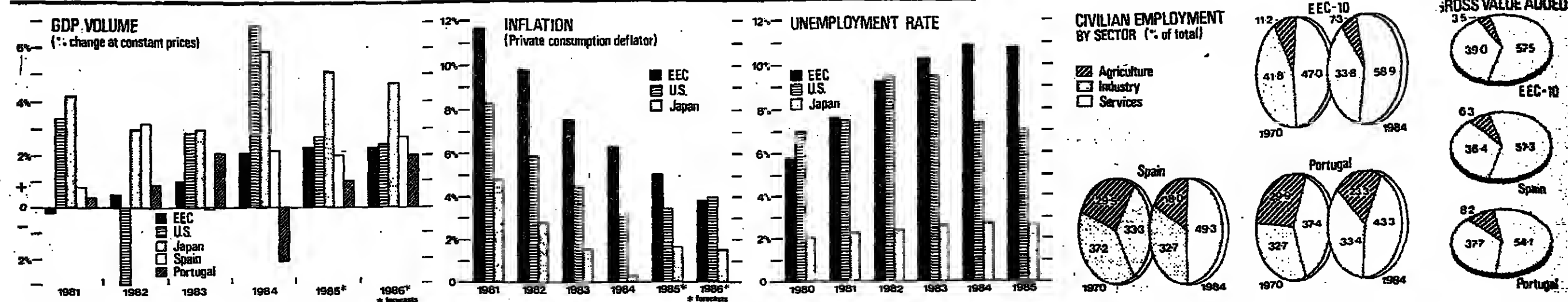


World Economic Indicators

| | Sept 85 | Aug 85 | July 85 | Sept 84 | % change over previous year |
|-------------|---------|--------|---------|---------|-----------------------------|
| W. Germany | 120.9 | 120.7 | 121.1 | 118.3 | +2.2 |
| France | 159.3 | 159.1 | 158.8 | 151.3 | +5.3 |
| Italy | 192.0 | 191.2 | 190.8 | 176.7 | +6.7 |
| Netherlands | 122.5 | 122.2 | 122.2 | 120.0 | +2.3 |
| Belgium | 141.5 | 141.3 | 141.3 | 135.4 | +4.5 |
| UK | 142.8 | 142.9 | 142.5 | 134.8 | +5.9 |
| US | 131.5 | 131.1 | 130.8 | 127.2 | +3.2 |
| Japan | 114.7 | 114.6 | 114.7 | 112.8 | +1.7 |

Source: Eurostat

STATISTICAL TRENDS: EEC



Exports the key to a recovery in output

THE recovery in output in the EEC is continuing after reverses in the first quarter in France and West Germany. Rates of growth for EEC are now converging with those being achieved in the US as expansion there slows, while in West Germany and the UK the second-quarter growth in gross domestic product outstripped the US rate.

Inflation rates have continued to decelerate. In August the consumer price index for the European Community showed no increase on the July figure, and in September the annual rate of inflation, at 5.3 per cent, was the lowest for 15 years.

The unemployment rate continues to be much higher in the EEC than in the US. The trend in employment growth is now positive after no overall growth in the period 1973 to 1982, and declines in each year from 1981

to 1983. But the expected rates of growth of employment and the labour force mean that at best the unemployment rate will be stabilised at its current level in the EEC as a whole, though there may be falls in some countries.

The major question over the future growth for the EEC is the precise effect of the slowdown in US expansion. At present the effects have not been felt, mainly because the US is continuing to run record trade deficits. Statistics on the source of Gross National Product (GNP) growth for the EEC countries show the importance of exports in 1984, and their increased role in underpinning the recovery in output this year. The most important area for export growth, of course, has been the US but with reduction of the trade deficit now a priority in the US, that growth is unlikely to continue. There must be some

doubt about where the alternative "engine" of growth can be found.

The overall competitive position of the EEC has improved, its high technology trade shows no great change. The value of exports divided by imports (the cover ratio) of high technology goods has continued to decline for the major four countries since 1981, except in the areas of telecommunications and scientific instruments, which have been stable or slightly improved. In bilateral trade, ratios have improved vis a vis the US, but with Japan the EEC's high cover ratios are in energy and food products.

A major challenge to the EEC's own structure and direction comes with the accession of Spain and Portugal. These new members are farthest from the EEC average in terms of GDP per head. The structure of their economies also differs from the average, in

that a larger proportion of gross value added is derived from agriculture, while far more people are employed on the land as a percentage of the employed labour force.

Spain has seen a fairly dramatic shift out of agriculture and into services since 1970, but in Portugal the change is less marked, with nearly a quarter of civilian employment accounted for by agriculture, compared with only 7 per cent on average in the EEC. Manufacturing industry in these countries is also concentrated in traditional sectors like textiles, iron and steel and shipbuilding, which are in decline throughout the community.

The economic structure and relative poverty of the new members is likely to strain the EEC's budget further. Even within the existing EEC regional disparities are wide, as the figures giving the extreme cases in each country reveal.

REGIONAL UNEMPLOYMENT RATES, APRIL 1985

| | % | | % | | % |
|---------------------|------|-------------|------|--------------------|------|
| W. Germany | 7.0 | Netherlands | 11.8 | Denmark | 8.7 |
| Bremen | 11.8 | North | 12.7 | Os | 10.0 |
| Sachsen-Württemberg | 4.0 | West | 10.6 | Hovedstadsregionen | 7.1 |
| France | 9.0 | Belgium | 11.8 | | |
| Mediterranean | 11.8 | Wallonia | 13.4 | | |
| Île de France | 6.7 | West | 10.6 | | |
| Italy | 10.5 | UK | 12.2 | | |
| Sardinia | 22.0 | N. Ireland | 18.4 | | |
| Lombardy | 7.0 | E. Anglia | 8.8 | | |

REGIONAL DISPARITIES

| | GDP per inhabitant (PPP) EEC-10=100 | | | | |
|--------------------|-------------------------------------|-------------|-------|----------------------|------|
| Belgium | 106.0 | UK | 92.6 | Greece | 52.7 |
| Wallonia | 97.5 | N. Ireland | 72.2 | East & South Islands | 44.4 |
| Brussels | 170.8 | S. East | 106.8 | Central Greece | 60.4 |
| W. Germany | 114.4 | Netherlands | 105.0 | Denmark | 111 |
| Schleswig-Holstein | 97.3 | South | 89.7 | Hovedstadsregionen | 123 |
| Baden-Württemberg | 118.8 | North | 137.8 | Os | 7.1 |
| France | 110.8 | Italy | 88.2 | | |
| Quers | 82.4 | South | 59.0 | | |
| Île de France | 156.5 | Lombardy | 115.5 | | |

EXPORTS TO USA

| % change on previous year (\$ values) | Jan-Oct 1984 | Jan-April 1985 |
|---------------------------------------|--------------|----------------|
| Japan | 38.6 | 28.9 |
| W. Germany | 34.6 | 12.3 |
| France | 35.0 | 14.5 |
| UK | 18.6 | -9.6 |
| Italy | 48.0 | 21.4 |
| Belgium | 31.0 | -5.8 |
| Denmark | 34.8 | 25.3 |
| Netherlands | 37.5 | -11.7 |
| Spain | 55.9 | -13.2 |

EXPORT/IMPORT RATIOS

| | (value of exports divided by value of imports) | | | | |
|----------------------------------|--|-------------|-------------|------------|---------|
| Office machines, computers | 1981 0.93 | W. Ger 0.73 | France 0.78 | Italy 0.68 | UK 3.24 |
| Communications equip, components | 1981 1.13 | W. Ger 0.96 | France 0.76 | Italy 0.73 | UK 1.38 |
| Electrical trans-mission equip. | 1981 1.13 | W. Ger 1.20 | France 0.84 | Italy 0.77 | UK 0.80 |
| Scientific instruments | 1981 1.42 | W. Ger 0.76 | France 0.55 | Italy 1.01 | UK 0.57 |
| | 1984 1.45 | W. Ger 0.80 | France 0.52 | Italy 0.73 | UK 0.53 |

SOURCES OF REAL GNP, GROWTH %

| | 1984 change as % of GNP | 1985 change as % of GNP | 1986 change as % of GNP |
|-------------|-------------------------|-------------------------|-------------------------|
| USA | 5.8 | 5.5 | -1.5 |
| Japan | 5.7 | 3.7 | 2.0 |
| W. Germany | 2.6 | 1.6 | 1.0 |
| France | 1.8 | 0.5 | 1.1 |
| UK | 2.3 | 2.8 | -0.5 |
| Italy | 2.8 | 2.4 | -0.2 |
| Belgium | 2.2 | 1.1 | 1.1 |
| Netherlands | 4.0 | 4.8 | -0.8 |
| Denmark | 2.2 | -0.9 | 3.1 |

COVER RATIOS

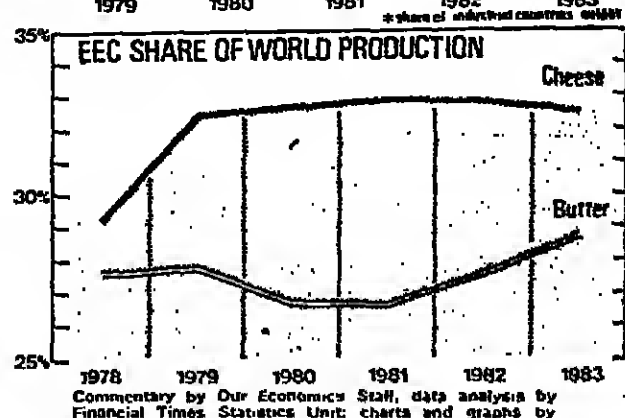
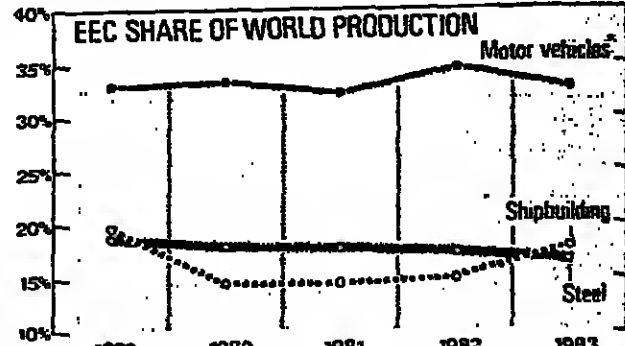
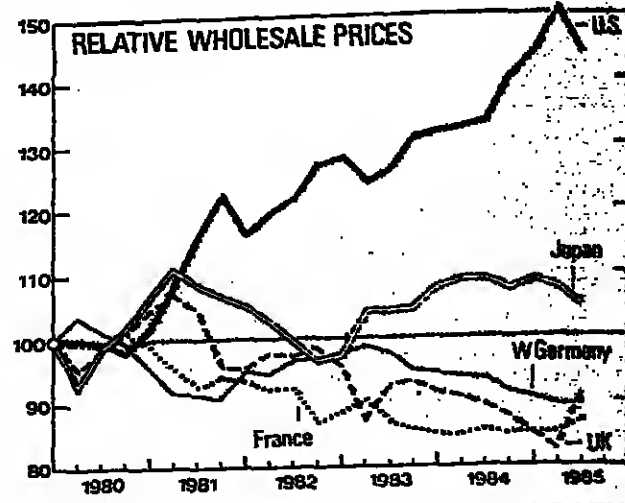
| | Exports + Imports | Exports - Imports | Exports / Imports |
|--------------------------------|-------------------|-------------------|-------------------|
| EEC-USA | 1979 1.31 | 1980 1.05 | 1981 1.02 |
| Basic industry | 1.1 | 0.88 | 1.32 |
| Machinery & transport | 1.40 | 1.53 | 1.34 |
| Data-processing and electronic | 0.38 | 0.24 | 0.33 |
| Agriculture & food | 0.36 | 0.33 | 0.36 |
| Current consumption goods | 1.26 | 0.51 | 1.77 |
| Total | 0.96 | 0.74 | 0.90 |

GDP PER HEAD, 1982 (ECU)

| | EEC-10 average | Differences |
|-------------|----------------|-------------|
| Denmark | 9,156 | +1,271 |
| W. Germany | | +1,182 |
| France | | +1,060 |
| Luxembourg | | +1,052 |
| Belgium | | +628 |
| Netherlands | | +516 |
| UK | | -316 |
| Italy | | -1,152 |
| Ireland | | -3,293 |
| Greece | | -4,103 |
| Spain | | -2,652 |
| Portugal | | -4,589 |

EMPLOYMENT & PRODUCTIVITY*

| | % change from previous period | 1982 | 1983 | 1984 | 1985 | 1986 |
|------------------|-------------------------------|------|------|------|------|------|
| EEC Employment | -1.1 | -0.7 | 0.2 | 0.3 | 0.3 | |
| Productivity | 1.8 | 1.9 | 2.2 | 2.0 | 2.0 | |
| USA Employment | -0.9 | 1.3 | 4.1 | 2.0 | 1.8 | |
| Productivity | -1.3 | 2.4 | 2.6 | 1.0 | 1.0 | |
| Japan Employment | 1.0 | 1.7 | 0.8 | 1.5 | 1.3 | |
| Productivity | 2.3 | 1.6 | 5.2 | 3.8 | 3.3 | |



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Treasury 'plans to cut export support margins'

BY CHRISTIAN TYLER, TRADE EDITOR

THE BIG London banks are preparing for a battle with the Treasury over the rates they receive for providing loans to support British exports.

The Treasury has not disclosed its position, but it is understood to be seeking to cut the cost of a scheme for fixed-rate, medium-term lending administered by the Export Credits Guarantee Department (ECGD). The scheme is very large: at the last count there was some £11.8bn worth of such export lending insured by the ECGD.

One banker said yesterday he believed the Treasury was looking for a cut in margins so large that it would have a "catastrophic effect on the UK export effort." Others said the Treasury was entitled to call for a review of the rates in the light of greater competition, temporary over-capacity, and the introduction of new financing techniques, but they would resist any significant reduction.

Under the system, the banks provide loans at internationally agreed fixed rates - generally below commercial rates - for exporters insured with the ECGD. They are repaid the difference plus a margin, to cover costs, of 3 per cent over London Interbank Offered Rate (Libor) for sterling loans and between 7 per cent and 8 per cent

over Libor for foreign currency transactions.

The cost of paying the margins will be around £100m in the present financial year, compared with the £250m cost of the interest rate make-up itself, according to the Treasury.

News of the Treasury's move came in a confidential letter to major banks from the Bank of England. It is likely to be opposed not only by the English clearers but also by most of the big American banks in London.

Mr David Olley of Manufacturers Hanover, who is deputy chairman of an American Bankers' Association subcommittee, said some might drop out of the market. He added: "We are going to be very hard put to it to accept lower margins because all banks are having to look closely at their return on equity and assets."

Some small, asset-hungry banks might vote for a reduction in margins, he said, "but if we leave this business to the secondary tier, how long will the market last?"

Mr Malcolm Stephens, export finance director of Barclays, said: "Any significant cut would have a very serious impact on the range of things that the banks do to support exporters, often free of charge."

The banks' negotiating position,

likely to be unveiled at meetings next week, may already have been somewhat undermined. Recently, the Midland Bank waived its arranging fees on two major export credits - a promise of an ECGD-backed loan of about £350m for a nuclear power station project in China, and a £250m credit line for Iraq.

Although the Treasury would not comment yesterday on its aims, it may argue that banks are overpaid for lending that counts virtually as UK sovereign risk, for which rates of 3 per cent or less would be nearer the mark.

Banks will retort that export lending is time-consuming and expensive compared with other business and involves some "front-end" risk. They will also argue that the rewards on the few deals that go through must be big enough to pay for the costs of the many that do not.

"This is not any more ill-informed tinkering by civil servants, but wholesale tampering that could bring the house down," one banker commented.

An important point in the negotiations could be whether the two sides can agree what is the "clear" value of the margin on sterling loans, according to Barclays.

Cars operation may shift with Lotus 1,600 jobs expansion

BY JOHN GRIFFITHS

GROUP LOTUS expects to create a further 1,600 to 1,700 jobs over the next few years.

This would bring the total employed by the Norwich-based specialist car maker and engineering concern to 2,300 to 2,400, similar to the number of jobs envisaged for Nissan's UK plant at Washington, Tyne and Wear, in north-east England if Nissan commits itself to full-scale manufacturing in the UK.

However, the expansion could mean the break-up of what hitherto has been an integrated car-making and engineering operation at the 54-acre Norwich site.

Lotus is now investigating alternative production locations for its new X-100 sports car, to be launched early in 1987 and which is to be produced at 3,000 units a year - more than triple the volume of its existing cars.

Mr Michael Kimberley, Lotus' chief executive, said the aim was to establish to what extent it could defray the £2m costs of bringing the X-100 into production through regional and other forms of Government aid.

He said Lotus would prefer to build the car at its existing plant, but he did not exclude the project going outside the UK.

Mr Kimberley declined to comment on the £35m aid that the Government is to provide to Nissan if it proceeds beyond assembly to manufacture. He said, however, "We are looking very carefully at what other companies have achieved and areas where assistance is available."

So far, development of the X-100 has been funded entirely by internally-generated revenue. Lotus has also been pending about £500,000 on expansion of the Norwich plant. Its intended purpose has been to provide the facilities to build the X-100.

Mr Kimberley said it was now possible that the additional plant would be used by its expanding engineering operations.

Lotus which at present employs 610, is firmly committed to increasing its work force to just under 1,400 during the next 15 months. A further 120 engineering staff are to be recruited for its engineering operations and £25 employed to build the X-100.

Mr Hal Sperlich, Chrysler president, has confirmed that Lotus is developing four-wheel drive systems and high-performance engines for the US group, and General Motors is understood to have a large engine contract with the UK company.

Guidelines on handling fraud bring Civil Service 'into line'

BY SUE CAMERON

THE GOVERNMENT has hit back at newspaper claims that civil servants were planning to introduce new rules making themselves immune from prosecution for theft or fraud.

Mr Richard Luce, Minister for the Civil Service, said in a House of Commons answer that he wanted to "correct the false impression which may have been given recently that civil servants are to enjoy a special immunity from prosecution for criminal offences."

The row over so-called civil service immunity to prosecution comes in the wake of the Property Services Agency's (PSA) handling of various fraud cases some 18 months ago. The PSA, which manages the Government's property interests,

was criticised by the Commons Public Accounts Committee for not taking action sooner to root out any weaknesses in its procedures once charges of dishonesty had been laid against individual officials.

The committee's criticisms are thought to have left senior Whitehall managers in a quandary. The Civil Service tradition has always been to prosecute for even the most minor offences - yet once a prosecution has been launched, senior officials felt it would be prejudging any court hearing to try to tighten up internal systems before a finding of guilt had been returned.

Whitehall has now produced new, draft disciplinary guidelines designed to meet the committee's criticisms. The chief feature of these is

that government departments will be able to "handle very minor cases of theft or deception without involving the police."

Mr Luce emphasised that the new guidelines were "still at the consultative stage." He insisted that the changes proposed were merely designed to "bring Civil Service procedures into line with those in the private sector, it may, in some circumstances be better for departments to deal with the matter expeditiously themselves rather than institute lengthy criminal proceedings."

He added that the new guidelines would "also allow departments, if necessary to change systems promptly to prevent a recurrence."

Teaching union unveils pay claim

BY DAVID BRINDLE, LABOUR STAFF

LEADERS of the second biggest teaching union have unveiled a pay claim for 1986 ahead of renewed attempts today to move towards a settlement of the nine-month old dispute over the 1985 demand.

The fresh claim by the National Association of Schoolmasters/Union of Women Teachers stresses the gulf between the Government's thinking on teachers' pay and the expectations of even the less militant unions.

Mr Fred Smithies, general secretary of the NAS/UTW, said he was determined to make progress today towards a speedy resolution of the 1985 dispute so that talks on salary restructuring - the basis of the 1986 claim - could begin.

However, the size and nature of the claim for next year can give parents no comfort that settlement of the dispute would mean a lasting end to disruption of their children's education.

The claim refers to the restructuring proposals put forward by the local authority employers a year ago which envisaged a professional grade for most teachers, ranging from £3,500 to £11,000 a year.

The NAS/UTW claim proposes a range from £3,300 to £17,750 and suggests only two further and limited grades below that of head teacher.

Buying US helicopters brings \$111m in offset

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

UK COMPANIES have received over \$111m (nearly £80m) of offset business as a result of orders by the British air force for the US Boeing Vertol Chinook heavy helicopter. Further business for the UK is likely on other Boeing Vertol programmes.

The first air force order for 33 Chinook twin-engine, twin-rotor helicopters was in 1978, worth over \$242m. In return, Boeing Vertol agreed to place offset business in the UK for up to 25 per cent of that amount, or more than \$60m, by 1985 with another 5 per cent, or over \$12m if possible.

In 1983 a follow-on contract for eight more Chinooks was placed, worth over \$80m, involving \$18m more offset or about 20 per cent of contract value by 1983. This brought Boeing Vertol's total offset commitment to over \$90m by 1983.

In all, \$6 UK companies won business under the offset scheme. Among the biggest recipients are British Hovercraft (part of the Westland Group) with more than \$55m, for major components for the Chinooks, and Lucas Aerospace, with over \$15m, for equipment and components.

BUCKMASTER & MOORE, the stockbroker which is forging a link with Credit Suisse, the leading Swiss bank, is planning to link with stockbroker Harold Rattle.

Harold Rattle is a seven-partner London-based market maker. The move is expected to provide Buckmaster & Moore with market making expertise in preparation for the radical reform of the British securities market, which will be implemented fully next year.

MR ROBERT MAXWELL, publisher of Mirror Group Newspapers (MGN) is to sue the Sunday Times over a story alleging that MGN is facing losses of £20m.

Mr Maxwell said in a statement that he took "grave exception" to the story which appeared as the main item on the front page of the Sunday Times' Business News. He claimed that the story had sought to

"damage MGN's financial standing." He added that the Sunday Times was "no doubt hoping" that this would "help its sister papers, the Sun and the News of the World."

The Sun, the News of the World and Times Newspapers are all part of Mr Rupert Murdoch's News International group.

The Daily Telegraph is to carry a denial of speculation in the Times that it intended to issue new ordinary shares in the near future.

Despite expected losses, the Telegraph, which completed a £10m refinancing package earlier this year to aid modernisation plans, has repeatedly denied that it would issue more equity. It is thought that one option open to the Telegraph if it needs to raise more cash would be to sell some of its Reuters shares.

WEDD Duracher Mordant, one of the largest stockbrokers or market makers on the stock exchange, is to start trading in shares of more than 100 companies in which it has not previously traded. It said that the move was designed to strengthen its competitive position ahead of structural changes in the securities market.

BARCLAYS BANK was urged today by a senior trade union official to "come clean" over reported plans for big cuts in its branch network and job losses over the next 10 years. Mr Noel Howell, Assistant Secretary of the Banking Insurance and Finance Union (BIFU), representing 17,000 of Barclays' 70,000 staff, called for talks on new technology and job security.

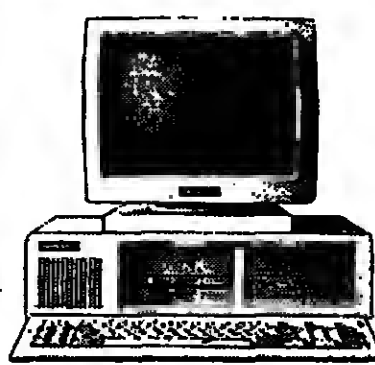
COMMERCIAL TV companies in the UK are expected to decide in principle to go ahead with the creation of SuperChannel, a satellite-delivered television channel for West European cable networks. SuperChannel, designed to tap the pan-European advertising market, will carry the best of Britain's four TV channels, and will compete with Mr Rupert Murdoch's Sky Channel.

The most rational tool invented by man is too often bought on irrational criteria.

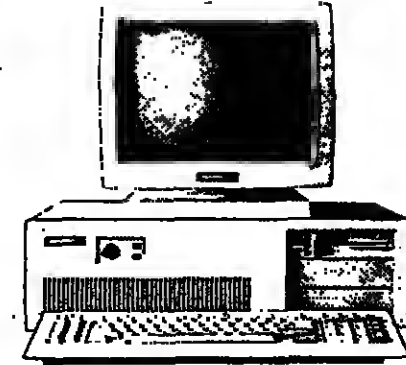
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UK NEWS

Inaction on property tax reforms could hurt Tories in poll

BY ROBIN PAULEY

TAXES on property (domestic rates) are likely to be abolished in Scotland before the next general election. The Tories have 21 out of 72 seats in Scotland.

A growing number of Government Ministers are determined there should be no poll tax in England and Wales and no rates reform.

They believe the upheaval and the many people who would end up paying more, rather than less, coupled with the unpopularity of having two local taxes instead of one, would be electoral suicide.

Mrs Margaret Thatcher, the British Prime Minister, remains determined to act but several senior Ministers are confident of persuading her to settle for a green paper (discussion document) around the end of this year and a mention of reform in the next election manifesto.

The system of local government and rating is different in Scotland and the level of resentment about the incidence of rates has now reached a pitch where Mr George Younger, Scottish Secretary, and Lord Whitelaw, Deputy Prime Minister,

believe inaction could cost the Conservatives dearly in the next election. The Tories have 21 out of 72 seats in Scotland.

If the plan to have rates and a poll tax is accepted for England and Wales, Scotland will follow the same route. But, if it is dropped, Mr Younger wants to abolish the Scottish domestic rate, introduce a domestic poll tax of an average £170 a head per year and set the business rates centrally at a lower and uniform level.

Mr Younger and Mr Michael Avram, Home Affairs Minister at the Scottish Office, are confident the Cabinet will approve their plan to abolish domestic rates in Scotland because it might rescue the Conservative's political fortunes north of the border and because it would enable the Government to say it is enacting its promise of reform but is waiting to see how the "experiment" works out in Scotland.

Most of the Government ministers with Scottish seats have constituencies in high rated areas. Most of the Cabinet with seats south of the border have constituencies with low average domestic rate levels.

Tin market braces itself for an end to the phoney war

THE DECISION of the London Metal Exchange (LME), the world's leading metal market, to reopen tin trading next Monday has transformed the international tin crisis.

All the tensions that have been accumulating in endless private meetings held over the past two weeks, will erupt in public on the trading room floor. As one dealer said: "The phoney war is over."

There has been an unreal calm on the exchange floor since tin trading was suspended on October 24 to give the International Tin Council, which runs a price pact between consumer and producer countries, as much time as possible to come up with solutions.

It was the failure of the council's efforts to support prices above £8,500 a tonne that precipitated the crisis. The council ran out of money owing hundreds of millions of pounds to brokers and bankers.

Now the LME has given the tin council one last chance to find ways to settling the debts, at an emergency council meeting to be held on Thursday. Otherwise tin trading will have to reopen with no one knowing what the council, the biggest buyer for the past 30 years, will do.

Prospects of positive action from the council before next Monday do not look good. The immediate difficulty is that the gap between its debt and its assets cannot be filled

Traders on the London Metal Exchange face one of the most anxious weeks of their lives as they prepare for a day's business that they will never forget. Stefan Wagstyl reports

without a huge injection of new money from its 22 member governments - perhaps £300m.

The council owes more than £300m to its 16 banks and has outstanding contracts to buy tin from metal traders for more than £800m.

Against that, its assets are £2,000 tonnes of stockpiled tin and a further 88,000 tonnes on its way if the contracts with traders are met.

Unfortunately, the value of all that tin will plummet when trading is resumed, cutting the council's total assets from above £1bn when trading was suspended at £8,140 a tonne, to perhaps below £750m when trading resumes and prices fall, say, to £2,500 a tonne.

The UK Government, with the interests of the LME at heart, is pressing its fellow tin council members to honour those debts. It is concentrating on its EEC allies, since the EEC speaks with one voice at tin council meetings.

However, even if UK succeeds with the Europeans, its efforts might still founder if it meets opposition from the leading tin-producing countries, Malaysia, Thailand

and Indonesia. Those countries are thought to be preparing proposals of their own that would include not only plans to deal with the council's short-term debts, but also ideas for refinancing it in future.

Consumer countries might balk at any suggestion of trying to maintain prices above free market levels in future.

The tin council's banks have offered to give members more time by deferring loan repayments for a year. But in return they have demanded government guarantees from the 22 members. One delegate said that that condition was so tough it made the banks' offer an ultimatum.

Meanwhile, as bankers, brokers and international civil servants try to find ways of solving the dispute, they are drawing in more and more lawyers to advise them. For many dealers there is a real fear that the whole matter may yet end in a long and costly court action. Already one trader, Amalgamated Metal Trading, has taken out a court injunction restraining the tin council from selling tin.

The council has formed a special sub-committee to look into its legal rights. Officials are confident that as an international organisation founded under the auspices of the United Nations, it enjoys a form of diplomatic immunity.

It is against that background that LME traders must prepare for next Monday. Fifteen of the LME's 28 ring dealing members, have outstanding contracts with the tin council.

Will these traders try to sell tin if prices collapse? Who will buy if the council is not in the market? Will other traders try to make a killing at the expense of those owed money by the council? Will they hold back for fear of destroying the whole LME?

The answers to those questions might be decided by the international groups that own most LME trading firms.

However, some companies have said they cannot make firm commitments until the extent of any losses is known - and that will be only after trading begins.

Others have preferred to say nothing - hoping to keep up the pressure on the tin council to move first LME traders, then, face one of the most anxious weeks of their lives as they get ready for a day's metal trading they will never forget.

CBI set to publish rare view of pay in manufacturing

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE FOOD, chemicals and paper sectors consistently settle high in pay agreements, while metals, mechanical engineering and textiles settle low, says a forthcoming study of manufacturing pay settlements recorded by the Confederation of British Industry's pay databank.

The databank examines settlements in its sample of 1,200 establishments, covering nearly 600,000 employees.

It records what the CBI, Britain's employers' organisation, sees as more appropriate information for studying pay negotiations than the Government's average earnings increases, published by the Department of Employment.

The latest survey examines information from the databank over the past five years, giving a rare example of how pay in the key manufacturing sector has moved overall since the Conservative Government came to power.

The survey was carried out by Mr Peter Lobban, deputy director of the CBI's employment affairs directorate, together with two academics, Ms Mary Gregory of St. Hilda's College, Oxford, and Mr Andrew Thomson of Glasgow University.

Some of the results, to be published in the *British Journal of Industrial Relations*, seem to counter prevailing thinking on such issues as the potential impact of unemployment on pay.

Its main findings show:
● Winners and losers. Noting consistent settlement patterns for different sectors of manufacturing,

small differences between settlement levels each year can become cumulatively important and lead to a marked change in pay relativities. The gap between the highest settler, food, drink and tobacco, and the lowest, mechanical engineering, grew to 11.1 per cent on pay levels in 1979 (when the databank was established).

● Regional differences. Such industrial patterns are reflected, in part, at regional level. The highest cumulative increase over the period was in Scotland, at 54.9 per cent, with the south-east at 54.5 per cent.

The lowest was the West Midlands - the heartland of the low-settling mechanical engineering sector - at 45.2 per cent.

Both these points tend to suggest to the CBI that the labour market may be working as a pay regulator. The databank is also the only pay monitoring scheme which consistently looks at negotiating pressures, and the five-year view the survey reflects the changes in the economy in the lifetime of Mrs Margaret Thatcher's Government.

It shows that over the period, the cost of living has declined as an upward pressure on settlements. The similar pressure of profits, initially of limited importance, has returned strongly - supporting the idea that some companies had problems in managing their success.

Upward pressure from the need to recruit or retain staff collapsed in 1980, and has not returned. Pressure from threatened or actual industrial action has remained at a low level.

Economy must expand faster, says bank survey

BY ALEXANDER NICOLL

BRITAIN'S ECONOMY needs to expand at a much faster rate if there is to be any significant reduction in unemployment, according to Charterhouse, the banking group acquired this year by Royal Bank of Scotland.

Charterhouse's quarterly business forecast said the failure of re-employment to fall in the first half of 1985 when total output was up 4 per cent on the previous year, was alarming in light of a widely expected decline in the growth rate over the next year.

With the workforce likely to continue to expand by 150,000 a year until 1990, and productivity expected to keep rising by about 2 per cent a year, "total output will need to rise by an average of nearly 2½ per cent per year to prevent unemployment from rising further."

Adult male unemployment was unlikely to fall until the annual growth rate exceeded 3 per cent, Charterhouse said.

In the 1930s, it said, unemployment was reduced from 3.2m to 1m through the abandonment of the gold standard, devaluation, high import duties, lower interest rates, rapid money supply expansion, and finally rearmament and conscription.

"It took all those measures to achieve faster growth and large-scale job creation, and just such a wide range of expansionary measures is called for now to achieve parallel success in returning to full employment over a 10-year period," Charterhouse said.

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UK NEWS

Heseltine orders probe of failed US Army bid

BY PETER RIDDELL, POLITICAL EDITOR

MR MICHAEL HESLITINE, the UK Defence Secretary, has ordered an inquiry into why there was such a large gap between the unsuccessful British and winning French bids for a new mobile battlefield communications system for the US Army.

The Reagan Administration announced last Tuesday that Thomson, the French-owned group, would receive an order worth \$4.3bn in the long term. The bid from Plessey, the UK company, was priced at \$1.4bn.

Speaking from the Far East, Mr Heseltine said on BBC television that the large price difference had been unbridgeable. He said many questions arose and he would put his mind to them, urgently on his return to find out what happened and why.

Officials are preparing a brief for Mr Heseltine, who is likely to be questioned in parliament. Some MPs from the governing Conservative Party allege that the French Government must have subsidised the Thomson bid.

Mr Heseltine defended a person-



Mr Michael Heseltine - the gap was unbridgeable.

al intervention earlier this year by Mrs Margaret Thatcher, the Prime Minister, who wrote to President Ronald Reagan putting the British case. He said she had acted characteristically in pursuit of British interests and jobs, and it had been entirely right to try to secure its British favour what had then appeared to be a more finely balanced decision.

However, the Ministry of Defence is known to have had doubts about

the wisdom of Mrs Thatcher's intervention at such a late stage, in view of the virtual certainty that the contract would go to France.

A non-partisan campaign in support of a freeze on production, testing and deployment of nuclear weapons throughout the world is to be launched in the UK this Wednesday, backed by figures from politics, industry, universities, the arts and show business.

The campaign, called Freeze, is distinct from the Campaign for Nuclear Disarmament (CND), since it aims at a multilateral initiative. Its main organiser is Dr Andy Haines, British representative of International Physicians for the Prevention of Nuclear War, which won the Nobel Peace Prize recently.

Patrons of Freeze include prominent politicians from the main opposition Labour Party, the centrist Alliance of the Liberal and Social Democratic parties, and at least one Conservative MP.

The Liberal leadership and some Social Democrats support an immediate freeze.

Daimler to build £9m vehicle centre

By Kenneth Gooding, Motor Industry Correspondent

THE BRITISH subsidiary of Daimler-Benz is to build a new commercial vehicle preparation and modification centre at West Park, Barnsley, South Yorkshire for £9.1m.

The centre, which will replace an existing one 12 miles away at Wakefield where 120 people are employed, is part of a £12m investment programme planned by Mercedes-Benz (UK) over the next four or five years.

At the end of the programme, MB (UK) will have rationalised its operations from eight separate locations, mainly in West London, to three - at Milton Keynes, with its headquarters and parts warehouse; at Harwich, with a car import and preparation centre, and Barnsley.

The company invested about £20m in the Milton Keynes facilities, which includes spending on relocation of staff or redundancy money for those people who did not wish to move from West London.

MB (UK) will finance the investment from its own resources. The latest accounts show net profit increased from £1.45m in 1983 to £2.69m last year.

However, the company did not pay a dividend for 1984. Only twice in the 11 years since it was set up has a dividend been paid to the parent group in West Germany: £2.1m in 1982 and £1.5m in 1983.

The company's balance sheet shows it had £17.6m in cash at the end of 1984, up from £14.5m a year earlier.

Turnover increased from £284.2m in 1983 to £324.4m last year and the taxable profit rose from £2.05m to £4.08m. Tax took just over £1m last year compared with a £1.25m tax credit for 1983. Extraordinary charges, mainly the cost of moving to Milton Keynes, fell from £3.56m (a net £1.86m after tax allowance) to £386,000 (£215,000 net).

The accounts show that the gross pay of Mr Hans Tauscher, the managing director and highest-paid director, was increased from £36,450 to £70,825 in 1984.

Mr Tauscher said at the weekend that he expects both car and commercial vehicle sales to continue to grow at an annual rate of 10 per cent to 15 per cent in the medium term.

New proposal to tackle unemployment

By Robin Pauley

A NEW SYSTEM of "workfare" which would give every able-bodied adult a statutory right to work or training after six months of unemployment is proposed today by Mr Ralph Howell, Conservative MP for Norfolk North.

Mr Howell says in a report for the Adam Smith Institute that the present welfare system encourages idleness and dishonesty, and that the answer is to provide paid employment in the community in low-cost labour-intensive schemes such as environmental improvement or community welfare work.

The young who had never worked would not be entitled to unemployment benefit but would be able to attend full-time paid training courses.

Mr Howell estimates the overall cost of unemployment in 1984-85 at £14.5bn.

Why Unemployment? C2, Adam Smith Institute, PO Box 316, London SW1.

Accounting data 'may be inhibiting progress'

BY GEORGE GRAHAM

INADEQUATE ACCOUNTING systems may be inhibiting UK companies from investing in advanced flexible manufacturing systems by placing too much emphasis on labour costs, according to Peat Marwick, the accounting firm.

Peat Marwick is sponsoring a research project to develop new accounting systems for appraising capital investments, in collaboration with Templeton College, Oxford, and the Science and Engineering Research Council.

Mr Michael Jeans, a Peat Marwick partner, said: "Traditional methods of cost classification, capital investment appraisal and cost control reporting do not appear to be appropriate to modern manufacturing systems."

Most cost accounting systems date from earlier decades and cost production on the basis of the labour time required. Direct labour costs and real material costs are allocated to a specific product. This may, however, prove to be a mis-

take when the major expense is the cost of capital equipment. Costs have to be recovered by keeping the equipment running.

In addition, flexible manufacturing systems - used in the electronics industry and in the automotive industry at companies such as BL and Volvo - are able to produce short runs of different products.

It is, therefore, difficult to allocate the overall capital cost to individual products. The direct production cost of a component may fall, but the total cost may rise because a wider product range is being maintained.

Mr Michael Earl of Templeton College, who will lead the project, said: "Engineers and production executives are starting to see that they need different accounting data, and they have ideas of what it should look like. Accountants do not. They don't see that there is a different set of problems." The research project is expected to run for three years.

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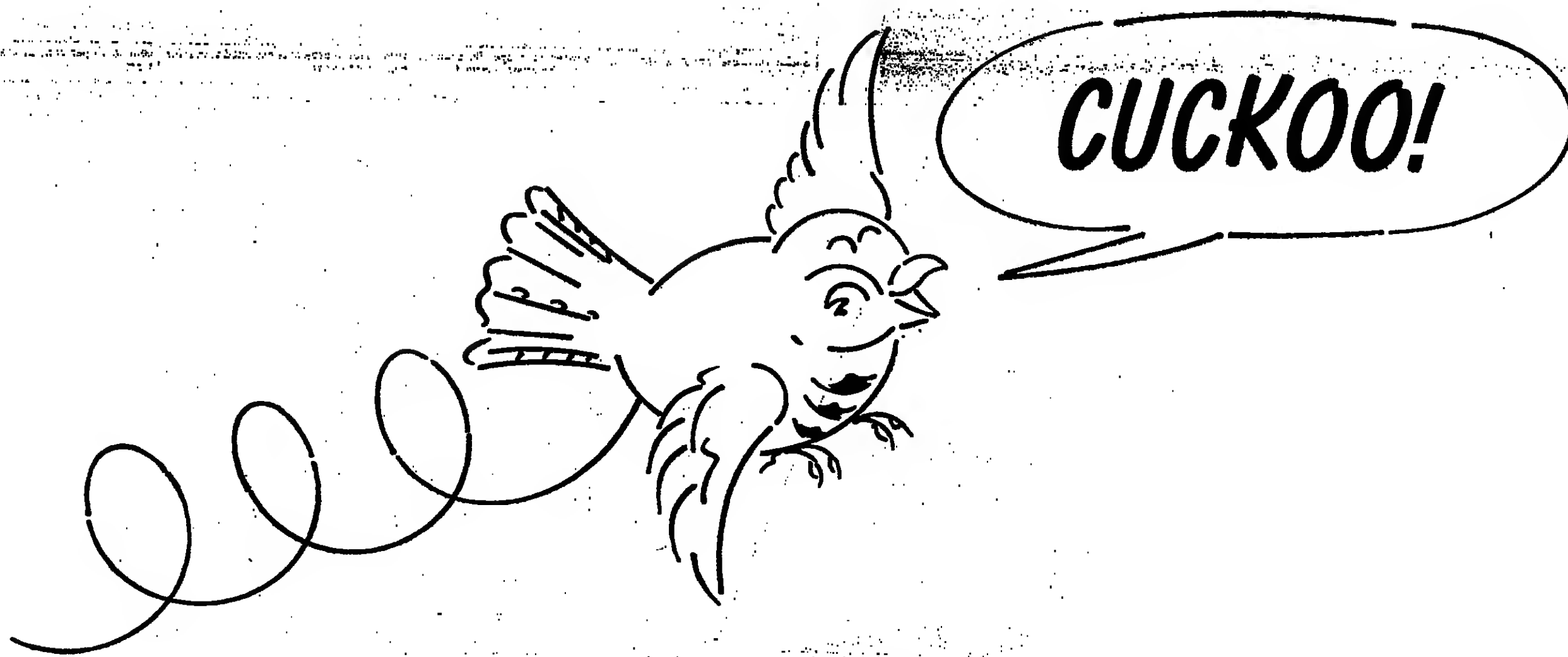
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What do you call a bird who relies on others to build its nest?



Behold the cuckoo. Not for him the skills of nest-building. He prefers to fly around, his beady eyes on the lookout for a ready-built home he can squat in. We've just heard the cry of the first cuckoo of autumn.

Guinness Peat want Britannia Arrow. Their attempts at nest-building haven't exactly been a runaway success. Check the records for yourself.

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in 1984 - and for the first six months of 1985 we've already exceeded £10 million.

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Merchant bankers Singer & Friedlander Ltd. last year earned nearly 2½ times as much as their own merchant bank, Guinness Mahon.

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Just like the cuckoo. They might need us. But do we need them? Sorry, Guinness Peat, but our shareholders have you twigged.

FERRANTI GTE

| | | | |
|-------------------------|-----|-----------------------------------|-----|
| ABN Bank | 114 | ■ Guinness Mahon | 114 |
| Allied Dunbar & Co. | 114 | ■ Hambros Bank | 114 |
| Allied Irish Bank | 114 | ■ Heritable & Gen. Trust | 114 |
| American Express Bk. | 114 | ■ Hibernia | 114 |
| Henry Ansbacher | 114 | ■ Hoare & Co. | 114 |
| Amro Bank | 114 | ■ Hongkong & Shanghai | 114 |
| Bank of Africa | 114 | ■ Johnson Matthey Bkrs. | 114 |
| Banco de Bilbao | 114 | ■ Knowles & Co. Ltd. | 114 |
| Bank Hapoalim | 114 | ■ Lazard | 114 |
| Bank Leumi (UK) | 114 | ■ Edward Manson & Co. | 114 |
| Bank of Montreal | 114 | ■ Meshrif & Sons Ltd. | 114 |
| Bank of Ireland | 114 | ■ Midland Bank | 114 |
| Bank of Cyprus | 114 | ■ National City Bank | 114 |
| Bank of India | 114 | ■ Mount Credit Corp. Ltd. | 114 |
| Bank of China | 114 | ■ National Bk. of Kuwait | 114 |
| Banque Belge Ltd. | 114 | ■ National Giro Bank | 114 |
| Barclays Bank | 114 | ■ National City Bank | 114 |
| Beaufort Trust Ltd. | 124 | ■ Northern Bank Ltd. | 114 |
| Brit. Bank of Mid East | 114 | ■ Norwiche Gen. Trust | 114 |
| Bank of China | 114 | ■ People's Trust | 124 |
| CL Bank Nederland | 114 | ■ PK Finance Ltd. (UK) | 114 |
| Canada Permanent | 114 | ■ Royal Bank of Canada | 114 |
| Cayser Ltd. | 114 | ■ R. Raphael & Sons | 114 |
| Cedar Bank | 114 | ■ Roxburgh Guarantee | 12 |
| Chariouhouse Japan | 114 | ■ Royal Bank of Scotland | 114 |
| Choulourats | 114 | ■ Royal Bank of Canada | 114 |
| Citibank NA | 114 | ■ Standard Chartered | 114 |
| Citibank Savings | 114 | ■ TCB | 114 |
| Citibank Ltd. | 114 | ■ Trustee Savings Bank | 114 |
| Citibank Ltd. | 114 | ■ United Bank of Kuwait | 114 |
| Clydesdale Bank | 114 | ■ United Bank of Kuwait | 114 |
| C. E. Coates & Co. Ltd. | 12 | ■ Westpac Banking Corp. | 114 |
| Comm. Bk. East | 12 | ■ Whiteaway Laidlaw | 12 |
| Consolidated | 114 | ■ Yorkshire Bank | 114 |
| Consolidated Trust Ltd. | 114 | | |
| Co-operative Bank | 114 | ■ Members of the Accepting Houses | |
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| E. T. Trust Ltd. | 12 | months 8.00% | |
| Financial & Gen. Sec. | 114 | months 8.00% remains deposited. | |
| First Nat. Fin. Corp. | 124 | Cash deposits £1,000 and over | |
| First Nat. Sec. Ltd. | 124 | 8.00% gross. | |
| Robert Fleming | 114 | 8.00% gross over £1,000 | |
| Fraser & Pirs. | 124 | 9.25% | |
| Grindlays Bank | 114 | Mortgage base rate | |
| | | 7.00% Provincial Trust Ltd. | |
| | | Demand dep. 8%, Mortgage 13%. | |

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021-704 5111**Heathrow
Airport
projects**

TAYLOR WOODROW MANAGEMENT CONTRACTING has been awarded two contracts worth a total of £3.5m in relation to British Airways' occupation of Terminal 4 at London's Heathrow Airport. The first, worth £2.5m, was awarded by British Airways and is for the fitting out of the APV (Apron Passenger Vehicle) buildings on the south east pier of Terminal 4. The work entails the fitting out of CIP or executive lounges including one probably for the exclusive use of Concorde passengers, and the Oasis Lounge for Middle Eastern travellers. Other facilities include a catering area containing a bar and kitchen for hot food, plus offices and facilities for British Airways staff.

The second, awarded by the British Airways Authority and worth £1m is for the design and construction management of a new two-storey 975 sq m (10,000 sq ft) ramp accommodation block adjacent to the APV building for use by British Airways. The work entails the excavation of the concrete apron immediately below the building and the construction of the 8 m (26 ft) high block. The building will be used by the British Airways' team who "turn around" the aircraft. Facilities include locker rooms with toilet and showers for staff, plus store rooms for supplies to service the aircraft. Both projects will be complete by early spring 1986 in time for the commencement of services from Terminal 4.

**ASDA store
in Preston**

ALLEN BUILDING, Wigan, has won projects worth over £2m. Included is a fitting-out contract for ASDA at a new store in Fishergate, Preston, at over £1m, the construction of a bespoke high-technology unit at Wavertree Technology Park, Liverpool, for a client of English Estates, valued at £1.2m, a school refurbishment project for the Metropolitan Borough of Knowsley at over £280,000 and, at over £250,000, the conversion of an existing Wigan garage to office accommodation.

**Carroll places £20m
work with Balfour**

The property division of the London-based Carroll Group has signed building contracts worth over £20m with **BALFOUR BEATTY** for construction and civil engineering works on three major schemes at Colchester, Wandsworth and Wickford, Essex.

The largest of the three projects relates to a design and build contract for a 300,000 sq ft retail centre at Colchester, Essex, which is due for completion in October 1987.

A substantial civil engineering contract for about a mile of roadworks is underway on

Carroll's 100 acre business and community park project at Wickford, and Balfour's civil engineering company will shortly be commencing a specialised land reclamation contract for Carroll's on its inner city 11 acre business park development on the derelict Wandsworth Gas Works site.

A spokesman from Balfour Beatty stated that it is pleased that a strong working relationship has been cemented with the board of the Carroll Group which could lead to a future involvement with Carroll's large property development programme.

**Fairclough builds
sewer tunnels**

Northumbrian Water has awarded a £2.8m contract to **FAIRCLOUGH CIVIL ENGINEERING'S** tunnelling division to build a 1.7km-long sewer through Whitley Bay to Seaton Valley. Another phase in the authority's project to clean up local beaches and the River Tyne, this is the first of six contracts to be let over the next four years. It is part of a plan to construct a new sewer system together with pumping stations to divert the raw sewage, presently flowing to sea, to the main treatment plant at Howdon. Completion is scheduled for early 1987. When the new scheme is commissioned, at the end of the 1980s, it will serve a population of around 100,000.

FAIRCLOUGH CIVIL ENGINEERING'S tunnelling division has also landed itself a challenging pipelaying task. On a £1.3m contract from North West Water, the division is to construct 14 km (9 miles) sludge main for carrying waste to a Liverpool dockside terminal. Care will be essential in surveying and trenching the Widnes to Warrington route, which is rich in above and below-ground services, among them many industrial pipelines. The route also runs in the highway and across wasteland with a high tidal river crossings, two rail crossings, and crossings of a power station, chemical complex and brewery. The central section of the Warrington sludge main, the 400 mm-diameter sewer will be constructed in ductile iron in open cut trenching. Fairclough plans to complete the project towards the end of 1986. When the main is finished it will carry sludge to a storage terminal and treatment works being built by

North West Water on Liverpool's waterfront in a disused dock. From there sludge ships will take the material for dumping in the Irish Sea. It will mean the vessels will not have to use the Manchester Ship Canal. Fairclough is part of AMEC.

A £1.3m contract for an outfall sewer at Newton Mearns has been awarded to **FAIRCLOUGH CIVIL ENGINEERING'S** Regional Council. Part of the council's programme for modernising sewerage and treatment facilities, the outfall will pass the sewage works at Newton Mearns, which will be abandoned. The outfall will direct flow from the existing works inlet to the south Glasgow sewerage system and thence to the new Shieldhall sewage treatment works, also built by Fairclough. In addition, the company will demolish most of the Newton Mearns works and landscape the ground. The project is scheduled for completion in about 14 months.

Contracts worth around £2.7m have been awarded to **JOHN LAING CONSTRUCTION**, at Edgware General Hospital, Middlesbrough, Laing is building a two-storey pathology block under a £1.5m contract for the North West Thames Regional Health Authority. The block will link to the existing facility. At Oxford a part two, part three-storey teaching block and biotechnology laboratory is being built at Oxford Polytechnic for Oxfordshire County Council. Work on the £1.2m contract involves the construction of an insulated reinforced concrete frame building clad with facing brick and part timber boarded cladding with the inner leaf of blockwork.

CONSTRUCTION CONTRACTS**McAlpine companies
office and pipe work**

WHATLINGS (BUILDING), part of the Alfred McAlpine construction division, has been awarded two contracts worth over £2.62m for building work in Scotland. The first, worth £1.98m and awarded by the British Airports Authority, involves the construction of the International Facilities Building at Glasgow Airport. The two-storey building will have a structural steel frame and will tie in with the existing building. Facilities will include an enlarged departure lounge, baggage reclaim hall and duty-free shops. The second worth almost £700,000, was awarded by the Irvine Development Corporation, Ayrshire, for the construction of a high amenity advanced factory at the Oldhall Industrial Estate, Irvine. The one-storey building will have a steel frame with metal cladding.

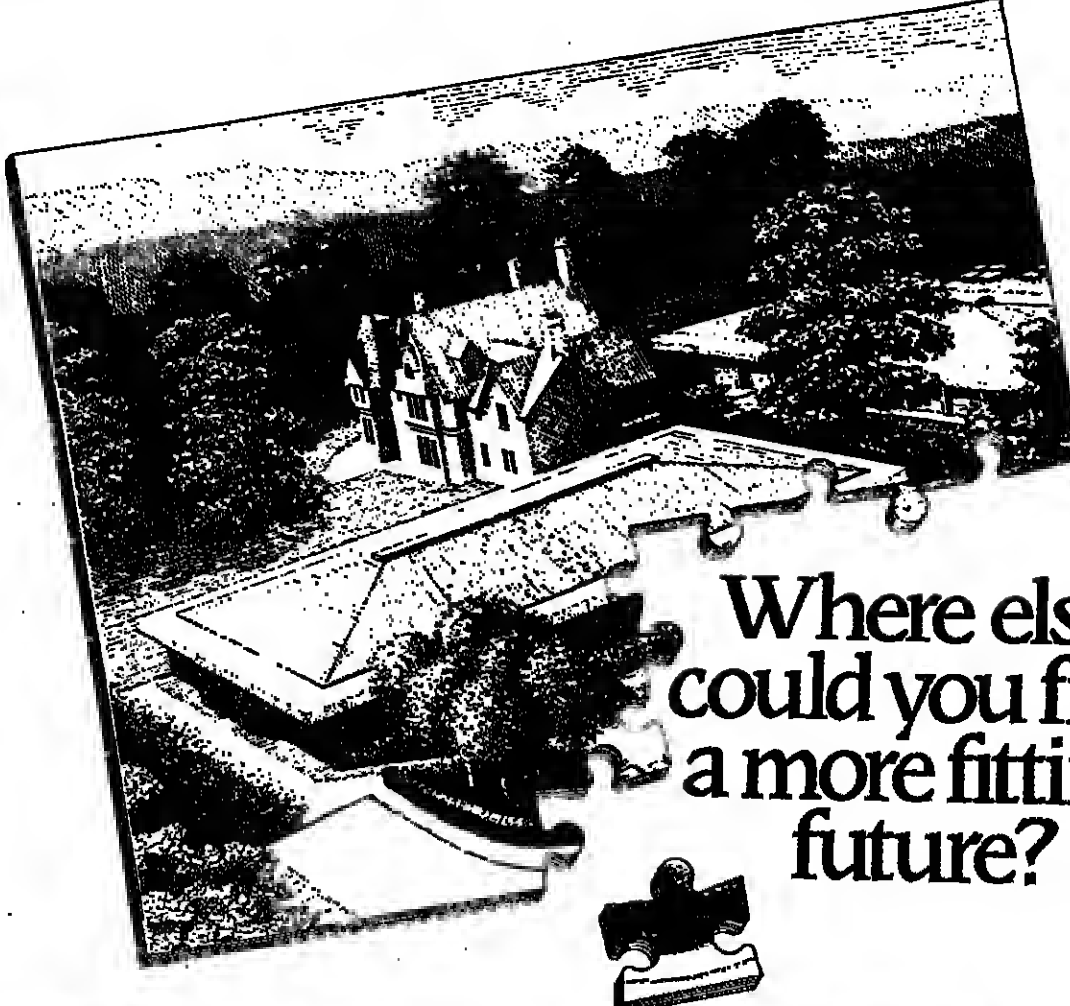
McAlpine has three contracts totalling over £714,000 for work in Wales and Cheshire. McInerney (Civil Engineering) in joint venture with Alfred McAlpine Services and Pipelines has been awarded a contract worth £200,000 for pipeline work in Co. Tipperary. The contract, awarded by Bord Gas Eireann (The Irish Gas Board), involves the construction of 5km of 100mm diameter welded steel gas pipeline and includes crossing the River Suir. Completion is scheduled for spring 1986.

WILTSHIRE SCOTLAND has been awarded a £688,000 contract by Rutherglen Housing Association to rehabilitate four closes. The closes are at 254, 260, 266 and 268 Main Street, Rutherglen. The project is due for completion at the beginning of August.

**W. S. Atkins to have £9m new offices at Epsom**

Work has started on a 9,400 sq m office development for international consultants **W. S. Atkins** in Ashley Road, Epsom. **HIGGS AND HILL BUILDING** has won

the contract worth about £9m. A glazed atrium reception area with two landscaped courtyards will be the highlight of the building which is to be called the consultancy's 50th anniversary.



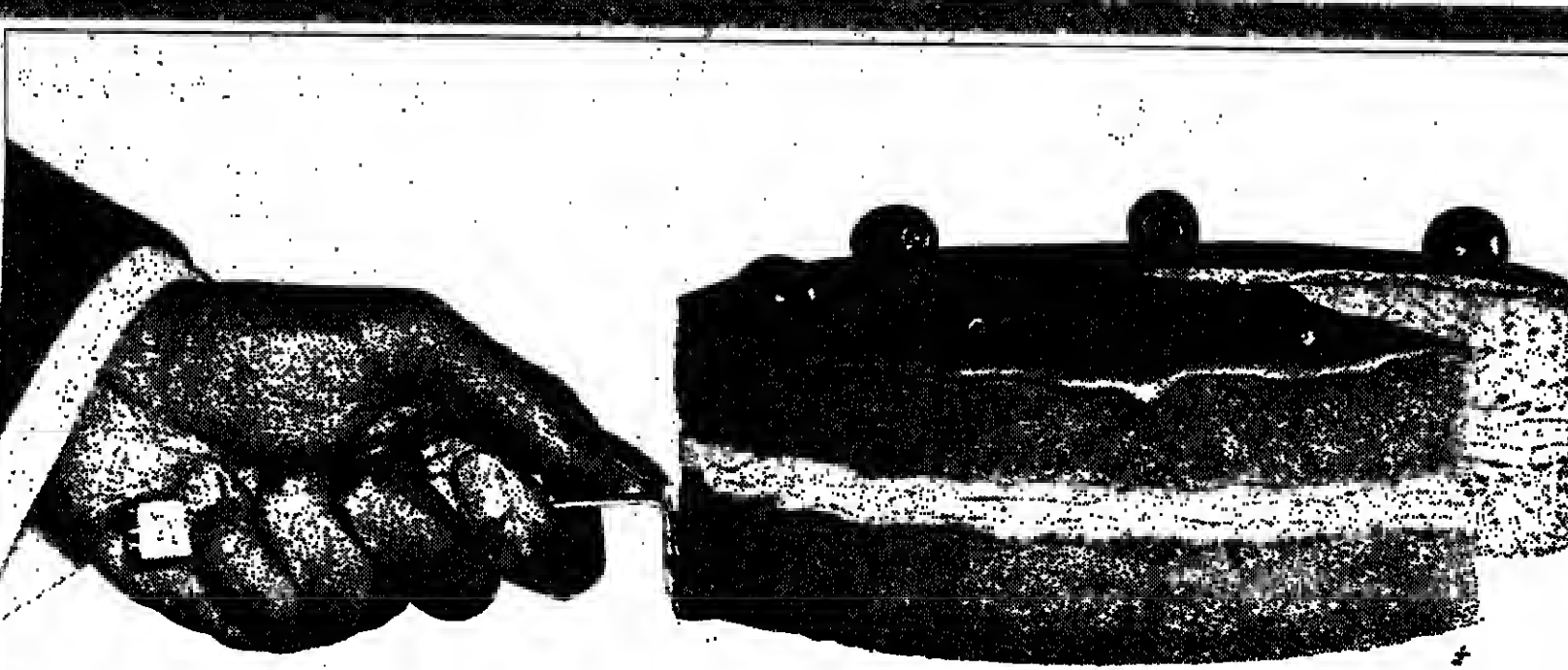
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FT REGIONAL REPORT

ARUN WEST SUSSEX

Conflict over growth

THE NORMALLY tranquil atmosphere of West Sussex is split with dissent.

The county's structure plan, currently under public examination, is the focal point for the dissenters, which include Arun District Council, the Federation of Sussex Industries and a grouping of local businesses called Planning for Economic Prosperity. They are critical of what they see as unnecessary proposed constraints, curtailing the economic development and promotion of the region.

Arun is an area of some 85 sq miles east of Chichester and west of Worthing with 14 miles of coast, and a population of some 125,000. It contains some of the richest farmland in the country, and was historically a major agricultural employer. The land now provides only about 5 per cent of jobs but horticulture is an important and growing element in the economy.

The district is anxious to build on its strong electronics base, which since 1981 has been the fastest growing sector. A strong attraction to companies has been the pleasant environment. The district also plans to make more of the area's tourism potential and promote the conference market.

Several household names are based in Arun including Butlin's Holidays, and Lec Refrigeration. The Body Shop International, will soon be moving to a purpose-built head office distribution centre in Littlehampton. Poor road communications, which may have been partly responsible for hampering development will be improved, and the district council has produced a strategy for the expansion of shipping through Littlehampton harbour.

But the tight rein on release of land for housing, light manu-

facturing and offices in the structure plan is seen by the district council as weakening Arun's attraction.

"The county council is still locked into traditional Tory shire policies. Our approach is more akin to current government thinking," says Mr John Midgley, Arun District Council chief executive.

"We see the need for greater relaxation of development controls. Land and house prices are escalating beyond the reach of first-time buyers because of the tight rein on the release of land for housing."

The district council says the county has underestimated the next 10 years' housing requirement. Arun is proposing an additional 1,900 homes to avoid frustrating its strategies, particularly promotion of economic development.

Mr George Millar, director-general of the Federation of Sussex Industries, says some industrial employers in Bognor are bringing staff in from neighbouring Hampshire, partly because of the lack of cheaper housing.

But Mr Peter Bryant, West Sussex planning officer says: "The county council shares the district's concern about the adequacy of employment opportunities. We are anxious to ensure that there is adequate land for industry and commerce."

"However, we believe our structure plan provision is sufficient."

An extra 1,900 houses on top of the 6,000 in the pipeline could exacerbate the employment problem, he says. "We have doubts about finding jobs for the existing population."

The county and district have shown nevertheless they are not beyond co-operation. They have reached agreement with developers on the use of a



Regional report by
ALASTAIR GUILD

former airfield to provide industrial sites, including some for small business units.

The district council has set up a business support unit to introduce developers and businesses to landowners willing to sell and to advise them on planning difficulties.

The unit publishes a property register and fact sheets on investment opportunities.

Last year, the unit financed construction of five small workshop units at a total cost of £100,000 on land owned by the council. The demand for such units, on short term leases, is growing.

The council is also seeking to put together parcels of land on special terms. Arun Business Park, with small industrial units provided by local developer Snelling Developments, is on land partly owned by the county council and partly by the district.

The structure plan sets aside hectares for Arun for manufacturing and service industry.

Flourishing businesses contrast sharply with the rural calm of the district, a calm disturbed by dissent over further growth



The district says this should be a minimum. "Our drive is not just to bring in new employment but to keep what we have got," Mr Midgley says.

The area is faced with a growing shortage of employment as Arun's workforce is expected to grow by 10 per cent from 45,700 to 50,000 by 1991.

Unemployment is 11.5 per cent, with 35 per cent of the registered jobless aged 24 or less. A large number of registered unemployed have left employment early, and "retired" to the area.

The seaside and retirement element has always been important to Arun's economy. Mr Midgley does not see caring for the elderly as a problem but as "an opportunity for wealth and job creation."

"The one-third of the population which is retired provide jobs not just for the nurses and people who run properties where the elderly live, but work for those who support the people who look after the elderly," he says.

However, the district council would like to attract more office jobs to help create a more balanced economy and age profile. Some 30 per cent of job enquiries are in the clerical sector. The structure plan allocates 50,000 sq metres for office development in Arun, a figure which the district again says should be merely the starting point.

Poor communications with London and shortage of suitable housing, however, might deter big companies.

But the district council owns sites which it believes might suit smaller office development. Road links could soon improve, with an Arundel bypass planned and gradual upgrading of the A27.

Some high-tech companies moving to Bognor Regis have also been unable to find the skilled workers they need. So the council aims to strengthen links with local schools and colleges of technology to keep up to date with manpower requirements.

The potential for further employment in horticulture, seems good.

The West Sussex Growers Association says there may be a restructuring of employment in the next few years leading to a higher proportion of full-time workers.

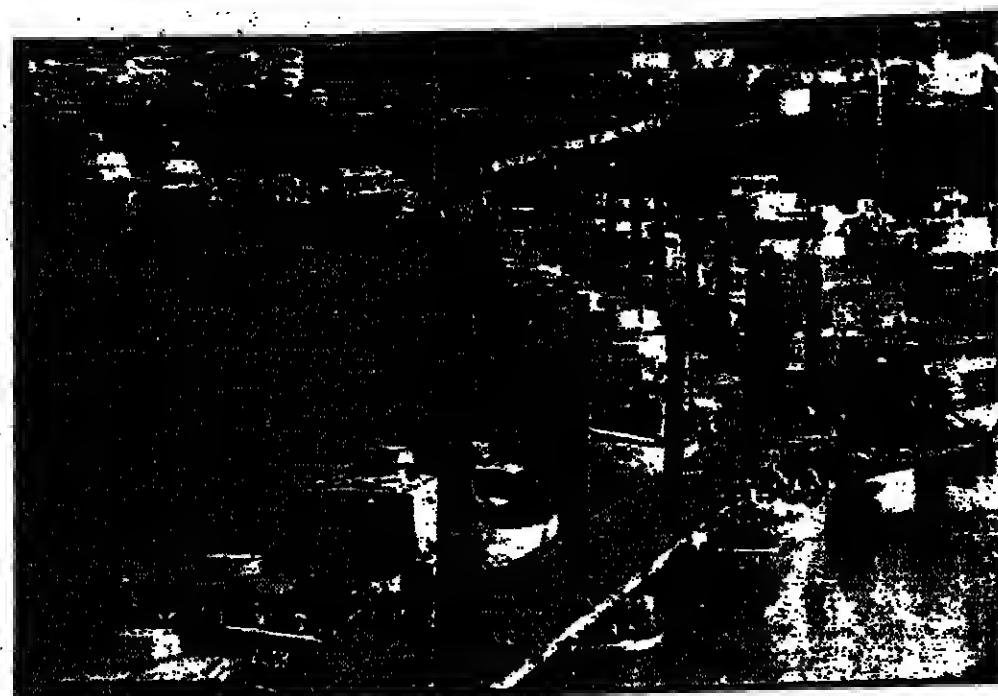
The district council is keen to enhance tourism. A study by McAlpine, Thorpe and Warrier to highlight openings for private investment says that tourism investment could be more valuable in economic and employment terms than most commercial or industrial development.

Options for major investment include water-based leisure activities.

Arun's main holiday catchment area is Greater London and the wider south-east region. But the district is largely at the high-volume, low-margin end of the market and without new markets, attractions and accommodation there is little scope for increasing income, the study says.

It recommends greater emphasis on short-break and activity holidays, coach tours and trips, small conferences, seminars and conventions, day visits and boating.

The Tourism in Arun group, which represents a number of the hoteliers and attractions in the area, sees increasing need for more hotel space, with perhaps a hotel development of 60 to 80 rooms.



Littlehampton Marina on the River Arun. Plans for the harbour and river aim for more trade and leisure activity

WEIR ELECTRONICS

The power of proximity

WEIR ELECTRONICS is the second largest industrial employer in Bognor Regis, with a staff of 515. It recently acquired three further factory units on the Durban Park Industrial Estate to allow for predicted growth.

The company makes a range of power supplies and monitors for the electronics industry. Last year it had a turnover of \$9.1m, an increase of £800,000 on the previous year. It plans to increase turnover to £11m by next year, with 30 per cent of output for export.

Over the next four years, Weir is projecting an annual growth rate of about 20 per cent. It plans to invest £3m in new plant and increase its workforce by more than 300.

The main customer for power supplies is the computer and

telecommunications industry. One product, for instance, goes into Memsch automatic telephone switchboard systems, and another into automatic type-setting equipment. The display division makes monitors and visual display units, supplying British Telecom's City Business Systems, for example.

Monitors are a relatively new market area, but over four years, the division expects to increase annual turnover by 25 per cent.

Growth is predicted by improving UK market share and increasing penetration of EEC and North American markets with markets for power supplies there also likely to grow by 30 per cent annually.

"We supply a range of standard, rather than customer-

be competitive," says Mr Mike Burgan, Weir's financial controller. He believes that eventually the Japanese will set up a UK plant for the manufacture of similar types of products.

But against present Japanese and Far Eastern competition, Weir offers proximity to the market and better engineering support.

These countries already hold major UK market shares at the lower end of the power range (15 to 50 watts) whereas Weir's principal markets are in the 50 to 500 watt range.

The company has been in Bognor since 1964 when it employed fewer than 50 people and occupied 6,000 sq ft. In 1967 it was taken over by the Unitech Group, which now has sales exceeding £200m.

LITTLEHAMPTON HARBOUR

Aim for discreet expansion

PLANS are being drawn up to make more of the commercial, tourism and leisure potential of Littlehampton Harbour. The harbour has a history of vigorous trade dating from the early 19th century, but today it is dominated by sea dredged aggregates.

A research paper for Arun District Council suggests "positive action to secure a future for the harbour."

"Doing nothing when the existence of the harbour is reliant on one cargo and the harbour has a legacy of inadequate maintenance and major repairs is a recipe for long-term failure and could lead to a high cost for Arun," it says.

The council's Business Support Unit should provide promotion and marketing in the short term, and if this proves successful, commercial agents should be appointed.

The Littlehampton Harbour Board management will need to ensure that the requirements of pilotage, harbour safety, commercial development and financial performance are balanced and met and that there is adequate forward planning.

"However, it is difficult to see how a strategy of rapid growth could be tenable. There are no wharves on the market which could be developed by the board and the prospects for increased commercial traffic are not firm enough to warrant the scale of investment involved."

The study recommends instead "a discreet growth strategy." This highlights three zones of the River Arun along its east bank:

● A leisure/amenity area from the river mouth to Fisherman's Quay, with County Wharf as a secondary berthing area.

● Further up the river an area of private commercial use, possibly river related, but providing riverfront access to the public.

● Another area of business/commercial activity under the harbour board.

It is also part of the council's general policy to exploit the potential of the River Arun on its west bank, emphasising the attractiveness of the sand dunes and beach at the river's mouth, with river-related industrial and leisure activities stretching north.

"The harbour could accommodate more boats, and tidal basins on the west bank are underused. Development of new moorings is favoured."

A site is available for development, owned partly by the district council and partly by the neighbouring shipyard.

The council has published a development strategy for Littlehampton Harbour, which includes an analysis of suggested schemes for all the riverfront land within the harbour.

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Earl Jellicoe, chairman of the British Overseas Trade Board (left), met the founder and chairman of Lec Refrigeration, Mr Charles Purley last month at the factory

LEC REFRIGERATION

Hot climate in cold market

THE UK market for refrigerators and freezers reached a peak of 2.5m last year, rising from 1.5m units in the late 1970s. During that time the share taken by Lec Refrigeration, a Bognor-based company, has increased from 14 per cent to 21 per cent.

The greatest demand has been for fridge-freezers, although single-door refrigerator demand has also continued to be strong. The latest models launched by LEC, the T424 and T454, have a fridge on top and freezer below.

The company's net profit margins on sales were 5 per cent last year, from a 10 per cent record in 1983. "We have had to be intensely competitive," says Mr Don Durrant, LEC's joint managing director. But the factory has worked at full capacity since 1979 and is employing more people.

Its main competitors in the UK market are Italian, though the UK industry has managed to reduce the penetration of imported fridge-freezers. Imports have fallen from 60 per cent of the market in 1983 to 40 per cent. However, this has made foreign competitors the more determined to regain lost ground, Mr Durrant says.

Extension

The company is also facing stiff competition in export markets, particularly from Yugoslavia, Italy and South Korea. Five to 7 per cent of Lec's production is exported. It used to do good business supplying units for Australian motels, but that came to an abrupt halt when Australia introduced 45 per cent duty on imports from most countries, and offered "developing nations" such as Yugoslavia a preferential 25 per cent.

Lec has maintained its competitiveness partly by making more of the product in-house than any other UK producer. For instance, it has its own foundry, casting 75 tonnes of iron each week for the motor

body, crankshafts and valve plates. It has built a factory on the Bognor site which next year will form a 25,000 sq ft extension to its fridge-freezer production line.

"Our production is fairly labour intensive, though we automate where it is going to show satisfactory advantages, for example in the supply of components to operators on production lines," Mr Durrant says.

As the production of a new compressor comes on stream, there will be a marginal increase in workforce, but numbers employed are not likely to change dramatically from the present level of about 1,900.

The company is headed by Mr Charles Purley, who founded it in 1940 in a workshop on the outskirts of Bognor Regis, and now has licensees as far afield as Tanzania, Guyana, India and Nigeria. "Developing countries see the need for the local production of appliances which are relatively easy to produce," says Mr Durrant.

The company is now increasing its marketing in Germany and France. It has a factory in Calais.

Lec is also diversifying. Its special products division makes cabinets for environmental research and small laboratory cabinets, and in conjunction with BP, has developed solar-powered vaccine cabinets for hot climates. The division's annual sales turnover approaches £750,000.

MEMO

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ARUN 2

HORTICULTURE

Food factories flourish under glass

THERE IS more to today's supermarket vegetable than meets the eye, with growers resorting to high technology and science for production and distribution.

The Glasshouse Crops Research Institute, based since 1954 near Littlehampton, is one of the world centres for the development of such techniques. The institute's location is no accident, as west Sussex accounts for 10 per cent of UK glasshouse production. There are 172 hectares under glass or plastic in the area, with 5,000 people employed in horticulture.

Growers have long been attracted by its equable climate, above average sunshine, and ideal soils—mainly brick-carria and loams. Another attraction is proximity to the fruit and vegetable markets of London.

Alternatives

Production is increasingly destined for the nation's multiple stores, which now take 60 per cent of UK glasshouse salad crops. These outlets, in turn, demand greater quality and consistency.

To help meet these requirements, the institute has been breeding varieties of tomato resistant to disease and ripening disorders. It has also conducted biochemical studies to improve understanding of flavour and the quality of soils.

It has also developed alternatives to soil. The majority of crops are now grown in peat bags, rockwool (a man-made

fiure used to insulate roots), or use nutrient film.

The institute's work has led to considerable improvements in productivity. Tomato crop yields 15 years ago averaged 50 tonnes per acre; today they are 150 tonnes per acre.

The introduction of artificial substrates such as rockwool has helped extend the season. With the highest sunshine levels on the UK inland, a west Sussex glasshouse will produce a crop for nine to 10 months of the year.

Mr Derek Rudd-Jones, the institute director, says the most dramatic impact on productivity of protected crops has come from the enrichment of the atmosphere with carbon dioxide.

"We thought extra gas would be wasted. We now realise that plants photosynthesise more efficiently during the summer so volumes of carbon dioxide fall and the plants will accept any extra injected into the atmosphere," he says.

This technique has increased productivity in the last two years by 5 to 10 per cent nationally.

Profit margins in the horticultural industry are never the less very small. "It is now a high-technology, high-investment industry. Some units use as much as 20 acres of glass. It is more like a factory process and unless producers make the necessary investment, they won't survive against imported produce," Mr Rudd-Jones says.

In the late 1970s the industry



Two types of local factory. Lettuce propagation under glass (above) at the Crops Research Institute, and welding (below) at Arun Wire Products, both in Littlehampton



facied escalating oil costs, and most producers have switched to burning gas or coal. It now has to build up resources for capital investment in new glass, maintain productivity and quality, and is turning to computers for controlling the environment.

To help head off foreign competition, West Sussex growers have grouped themselves into a co-operative called Fargrow. It buys in bulk materials such as insecticides and peat and used to negotiate with oil companies before glasshouses switched to alternative fuels.

Co-operative

Growers have also formed groups for bulk marketing of tomatoes. Van Heyningen Brothers, the largest controlled environment tomato producer in the West, markets for smaller growers from its Littlehampton site after grading and packing. The institute, in co-operation with Van Heyningen, Marks & Spencer and Sainsbury's, is trying to improve pre-packs to extend shelf life.

"Such co-operatives give growers more clout," says Mr Donald Frampton, president of the West Sussex Growers Association. "Supermarket specifications are very tight."

"We also need to provide continuity of supply. The only way growers, especially small ones, can achieve this is by having produce graded and packed centrally."

"However, glasshouse producers are now involving themselves not just in co-ops but in entrepreneurial activities, for instance importing produce outside the UK season to satisfy year-round demand."

Attempts to develop export markets for West Sussex tomatoes have been fairly limited, but the potential for celery exports could be considerable. Using artificial lighting with critical temperature controls, the institute has inhibited the flowering of celery during the spring.

The Siddlesham Growers, a co-operative, estimates that losses from flowering are equivalent to 12 per cent of its annual turnover of £2.5m. The new techniques have been so successful that the growers are supplying a German supermarket.

With celery being cut from January well into the spring, Mr Frampton is optimistic that

BUTLIN'S HOLIDAYS

Move from bucket and spade days

BUTLIN'S Holidays, based in Bognor Regis, was set up by Sir Billy Butlin in 1936, helping create an era of traditional family holidays through its seaside resorts. The company has expanded into holiday hotels and caravan and leisure parks as far away as France and Spain, and became part of the Rank Organisation in 1972. Further diversification is moving the group away from traditional bucket-and-spade image. The Bognor resort, for instance, which celebrates its silver jubilee this year, is offering more off-season activities. But there is still some traditional flavour in its latest offer of a "Cockney knees-up weekend party."

This is a far cry from the off-season religious gatherings hosted there. The Elm Pentecostal Church attracts 4,500 to its south-coast gathering in May, the Salvation Army 4,500 and the Seventh Day Adventists 3,000.

Butlin's educational support services offers school venture weeks and pre-vocational education courses and YTS courses between autumn and spring.

This summer Butlin's Bognor, which can sleep 5,500, had 127,000 resident guests and 185,000 day visitors. It attracts an additional 2,000 residents each week to its venture-in-education programme. At peak season it employs 700 staff, mostly live-in and has 100 permanent employees. A further 120 work at the head office of Butlin's Holidays.

The centre has recently added 242 "country suite" units as more upmarket accommodation. The remaining units are chalets, flatlets and apartments. Self-catering and activities such as the schools venture weeks, will further dispel the reputation for regimented holidays. But the company recognises that it will still appeal mainly to lower socio-economic groups.

Last year's miners strike has had an effect on holiday bookings this year, mainly for northern resorts, but the company hopes that by next year the strike's effects on incomes will have dissipated.

It still hopes to maintain its 85 per cent occupancy rate. Main competitors on the south coast are Yantis, Warners and Ladbrokes.

WAYNE KERR

Cut-price computer attractions

THE OFFER for sale earlier this year of shares in Wayne Kerr was more than 10 times over-subscribed. The Bognor-based company, which came to the unlisted securities market with a capitalisation of £13.5m offered what one commentator described as "the chance to invest in electronics at a sensible price."

Wayne, a designer and manufacturer of automatic test equipment and instrumentation, was founded in 1946. It was later taken over by Wilmet Breeden, the engineering group which was in turn bought by Rockwell, the US group. In 1983, however, the Wayne Kerr management, led by its chairman and chief executive, Mr Alan Dennis, bought back the company from Rockwell, with help from investment in industry, now 31, and Barclays.

Mr Dennis took the company away from a dependence on contract work, largely for British Telecom and the Min-

istry of Defence, to supplying a wide range of customers, including computer manufacturers and industrial users of electronics. Marketing companies were set up in West Germany and the US. Now 40 per cent of the company's income is derived from overseas sales.

Computer-aided design equipment is one of the smaller but rapidly developing sectors for the company, which has substantially increased its share of what has remained a fairly stable market. It bought a CAD company with an annual turnover of £150,000 and is now doing more than £1m of business each year.

Wayne's general aim is to produce cheaper systems. "We aim to provide 80 per cent of the capability for 20 per cent of the price of other systems," Mr Dennis says. "Our product is much more attractive to industry at a time when its costs are under-

pressure."

The company employs 280 people on the Bognor site, including 115 factory workers, and is spending £700,000 on 22,000 sq ft of additional manufacturing and development laboratory space. Some of the finance came from the float, with 31 offering to provide additional finance.

"Given the right sort of opportunity we would be interested in friendly acquisitions, but we need a period of settling down after the float," Mr Dennis says. The company is nevertheless prepared for growth and is looking at openings in the Far East.

Mr Dennis is pleased with company's location, but would like to see an improvement to the motorway network. "Transport of our goods is not such a problem; it is more the movement of people and in particular overseas visitors to the company."

WEST SUSSEX AREA ENTERPRISE

Businesses club together

WEST SUSSEX Area Enterprise Centre, incorporated as a company in 1983, last year created or saved 130 jobs compared with 47 in 1983. Its director, Mr Len Crowhurst, is himself an example of the kind of client increasingly using the centre's services.

He was made redundant by Balfour Beatty and set up his own marketing consultancy, then a commercial and industrial property consultants. Last January he added business insurance to his string of partnerships.

"The biggest area we are trying to satisfy is the demand for advice from professional people who have been made redundant or taken early retirement. They do not necessarily want to follow their original profession but often want to convert an interest into a business," he says.

Inquiries are concentrated on sources of finance, accounting problems and the search for premises. Some 60 per cent are for start-ups. "Business insurance is an

area in which some people show complete ignorance. Of the three of our client businesses that failed during 1984, two failed through lack of proper insurance. We also find that many clients do not understand the difference between marketing and sales."

The need for better marketing advice and support prompted the formation of local business clubs, initiated by the centre with Worthing College of Technology, Crawley College of Technology and Arun District Council.

The clubs provide small businesses with the opportunity to promote products or services not only to other members but to other companies. Members have access to a detailed directory of members, products and services, circulated inside and outside the club.

"Organising exhibitions and shows is time-consuming and costly for many companies. Members can benefit from sharing stands at trade shows," Mr Crowhurst says.

monthly newsletter which can be used to advertise in, pass on information or as a means of sending out members' mailshots.

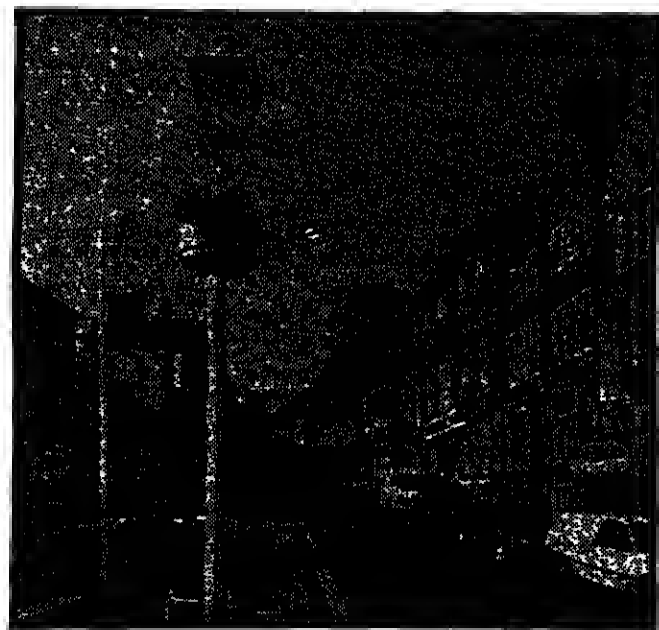
Once a business is established and shows potential for growth, it can join the Business Success Association, one of the first of its kind in the UK. This offers extra services such as special studies and in-depth assistance.

These include telephone "hot-lines" for immediate advice on any business problem or technical query; inter-trading instructions; notification of business award schemes and competition; and incoming telex services.

If problems arise outside the competence of the association, it brings in outside experts.

The service ranges from arbitration of disputes to business diversification and help with exporting.

"The initial aim is to provide effective services that will give the most vital resources of the small business—time and money. The overall aim is to help it achieve success," Mr Crowhurst says.



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THE ARTS

Architecture
Colin Amery

The danger of the professionals

PRINCES have often passed the time of day with architects. It was in 1610 that Inigo Jones was appointed Surveyor to Henry, Prince of Wales. Things were different then — design a masque or two and a tournament and your reputation was made. The Prince Regent must have had a few ups and downs with John Nash but the Prince Consort enjoyed the company of architects because he could have been one himself.

It is rather different now. Sadly it is not the order of the day for princes to build palaces nor, constitutionally, can they do much more than advise and warn about the direction taken by the professionals that operate under Royal Charters. Prince Charles has realised and drawn attention to the fact that the architectural profession in the UK has not been giving people what they want.

While he is in Washington the Prince of Wales will visit the American Institute of Architects and attend a seminar about community architecture and the inner cities. He is likely there to meet the architect David Lewis (once described as the Welsh flying doctor to the wounded American cities). It was Lewis who spoke earlier this year on the subject. Making City Democracy Work, when he visited the Royal Institute of British Architects. Then he described the American programme of Regional Urban Design Assistance Teams — volunteer teams of professionals set up in the early 1970s to assist in the riot-torn ghettos of American cities. A similar experiment was tried in the St Mary's area of Southampton this summer and there will be more experiments in some northern cities.

There is a danger that the professionals will know best and that this time it is community architecture that will be applied as a panacea for the problems created by earlier professional panaceas in the post-war years. The value of the American experience is that it has restored democracy to the design process and made it clear to professionals that the problems of inner cities are complex but they do not need a bandwagon of community architects to tell them what to do. Poorer people

Hackney comes up with after his architectural probe into the inner cities and their trouble spots, it is important that the solutions arise from the people themselves. Architects have rightly been blamed for their extreme arrogance in the recent past. The unholy alliance of industrialised system building and the super-confident architect has produced places like Broadwater Farm — scene of the Tottenham riots. However unjust it may seem to some, "Modern Architecture" has been blamed for much social discontent and sheer ugliness. It is unlikely that architects,

... the problems of inner cities are more complex than mere matters of architecture.

now crouching under the community umbrella, can relieve inner city deprivation and strife. They are wrong to attempt it alone. Community architecture should be about politics and this makes it dangerous territory for princes. People know what kinds of houses they want and they also know that their local political system and the absence since 1973 of the effective small units of local government, make it nearly impossible for local community initiatives to flourish. In Liverpool there has been a long political fight to achieve the successes of the housing co-ops and in Glasgow the introduction of "self-managed" housing estates is only being achieved in the face of prevarication by the Government. Why should it only be architects who can bring about environmental change?

Perfectly ordinary people without expensive professional training do need a little help in the design of new houses but they do not need a bandwagon of community architects to tell them what to do. Poorer people

must be helped to house themselves and their own capacity encouraged rather than hindered. This can be done only at a very local level with the encouragement of democratically elected local government.

If the story of the Prince and the Architects is to have a happy ending a way will have to be found to allow an English version of what the Americans call "the precise and articulate physical language of democracy" in our inner cities. It is hard to see how this can be achieved by pretending that architecture is somehow a private activity practised outside the political arena.

In the City this week is an important exhibition (in the Visitors' Gallery of the Stock Exchange) about the future of two important London institutions. The Courtauld Institute of Art is one of the world's leading centres for the study of art history. It is planning to move its academic activities and its stunning collections to the magnificent premises at Somerset House.

It is the most enlightened idea and will give London a magnificent new art gallery and a superb Georgian palace that has been closed to the public for far too long. The exhibition is designed to show how the Fine Rooms will be used and the collection displayed. The success of this project depends on an appeal for funds: it is hard to think of a better way of supporting both art and architecture.

Less enlightened activities seem to be going on in Hammersmith where the island site on Hammersmith Broadway is to be turned into a dreary office development.

One of the things that will be lost is the Baroque facade of Bradmore House, attributed to the architect Thomas Archer (1668-1743). It was the architect of St John's, Smith Square. Surely this facade, which was originally saved in 1913, can be incorporated into a new scheme. It is too important to lose and the Hamersmith Council should not let one of the few good things left in the borough be sacrificed.

Elisabeth Platel/Covent Garden

Clement Crisp

Were we in Rome, there would have been white smoke appearing from an Opera House chimney on Friday night, and the cry "habemus Aurum". Elisabeth Platel, making her debut with the Royal Ballet in *The Sleeping Beauty*, gave an interpretation lustrous, beautiful. Three years ago I reported from Paris on her Aurora, when she shone like the best of deeds in the naughtiest of worlds which was the Opera's manically dusted staging. Now, in a production which largely respects Petipa's original, the jewel of her dancing finds a worthy setting.

Watching Miss Platel we see, first of all, ideal schooling. The basis of her art is secure, elegant; her use of it is brilliant in effects and subtle in means. She offers that rare combination of physical exhilaration allied to classic poise and the life of the role, and of the dance itself, illuminate the formal proportions of her style. Hers is a slender yet expansive physique. Legs flash into highest extensions but also into delicate for the smallest steps. Arms open out into generous though academically ordered gesture. Her temperament is vivid but unforced, without facitious bravura. She shows us choreography as

have ever done the greatest French exponents of ballet or opera in the knowledge that words and music are indivisible, equally to be respected. (The recent release of the wonderful Petipa recording tells everything of this matter.) So Miss Platel articulates her words — the steps — with exquisite diction, not a syllable lost, not a phrase fudged, integrating them with the melody of choreography and characterisation. Aurora is brought to stage life with exemplary clarity, refinement, and an alert musicality. The young princess of the first act is radiant, the stage lit with the brightness implicit in her name. The Rose adagio is sweetly dignified; the variation has a kind of melodious joyfulness; the spindle scene catches all the feeling so potent in the score. The vision of Aurora in Act 2 shows that classic style may melt a little, with yearning arms and movement sustained on a long-breathed legato. Miss Platel favours less brusque tempi than our local performers — each nuance of accent and phrase displayed without losing the onward momentum of the dance.

The last act duet was limpid, Miss Platel's line stretching out and ebbing onward, the harmony

and nobility of the classic dance always respected. A performance, in sum, worthy of Petipa and Chalkovsky.

There were brief moments of discord with Mark Eimer's tempi, and traces of early nervousness, but we have not seen such an Aurora at Covent Garden for years. Miss Platel's partner was Jonathan Cope, making his debut as Florimund. As yet he gives the mere outlines — technical and emotional — of the role, but he proved himself an attentive partner. Anthony Dowell has assumed the mantle of Carabosse this season, in a portrait of seething malice, boldly malevolent in presence. Miss Platel appears only once more as Aurora, but she must surely return for further performances and further ballets.

Wexford 1986

The opera programme of the 1986 Wexford Festival October 22 — November 2 will be made up of three works, Rossini's *Tancredi*, Thomas's *Mignon* and the rarely-performed *Knights Under the Hollyhock* (and *Grieta*). In addition, there will be a full supporting programme of concerts and recitals.

Cosi fan tutte/Cardiff

Max Loppert

In advance of Saturday's premiere at the New Theatre, the big question to be posed about the new Welsh National Cosi (sponsored by Prudential) was: What Would They Do With It? Would the setting be transferred to a swimming bath, a rubbish dump, a treehouse, a circus? Would there be weird fascist activities with shoes and crosses, or climatic tableaux of revolutionaries and freedom fighters? The mind boggled over what a WNO Despina might get up to with the chocolate, the prospect of Albanians disguised in heavy leather or drag made the head swim.

The most surprising thing about the show, then, in view of the company's recent ways with sanctified repertoire material, was its fidelity to the original. It was a minor detail (or two) to Da Ponte's libretto, its acceptance of the specified time and place, its willingness to work within the Mozartian musical frame rather than attempting a simultaneous critical commentary thereto. This was refreshing as, were the generally clean, uncluttered lines of thought developed by the producer, Liviu Ciulei (a senior Romanian of international theatrical reputation making here his British debut).

According to a WNO pro-

gramme note by Anthony Peattie, the producer raised doubts, during the rehearsal period, about the exact station and degree of "breeding" of the ladies from Ferrara; these manifest themselves in some interesting and original turns of action (Fiordiligi's submission to the disguised Fernando culminates on the floor, stage front). But such things never seem, in context, extraneous or, indeed, salacious; for this is a Cosi that explores the disquieting fluidities of all the relationships, and casts its shadow on all the participants — as in the ENO's Xerxes, the ripples of discomfort caused by the final general reconciliation count as one of the performance's strongest points.

There were others — the genuinely down-to-earth, unskittish Despina (Andrea Bolton), a wonderfully subtle portrait of a wine-bibbling old Don Alfonso by Thomas Hemsley. But there was also a fair amount of untidy stage management and inept stage lighting about the first night (which will come right), and a slight feeling of constraint provided by the unsightly papier-mâché frame and plastic-sea-cape backdrop (designers: Radu and Miruna Murescuz); at least the acting area is coolly attractive in its proportions, and the costumes good. A larger constraint, which in future seasons

must urgently be put right, is the direct result of requiring an all-British cast to sing the work to a Cardiff audience in the original language. Most of the articulation of Italian is difficult but lifeless; only Mr Hemsley, despite his noticeably English accent and his reduced (but expertly managed) vocal resources, actually uses the words in ways that propel the drama.

But perhaps the largest limitation on the pleasures of the evening came from an entirely unsuspected source — György Fischer, previously a WNO Mozart conductor of impressive qualities, who gave here a heavy, unsensual account of the score, median in tempo and dynamics, plainly phrased (and a sublime melodrama) with the hero getting the better of Mephistopheles. He may not win the wager struck in Part One, but he does not lose it, dying on a vision of an affable society in a free country. Mephistopheles, dazzled by the angels, declares he has been seduced by God as Faust is quietly transported to heaven. Long metaphysical speeches, complex classical allegories and various Greek gods have been cut from Part Two. But the Citizens' approach is confidently based on an assumption that the work is stageable, not a view Goethe held with much conviction. And Mr MacDonald's production is another fine example of this venue's bicultural theatrical intelligence, setting the opening and closing scenes not in Heaven but in a rehearsal room, with Gilea Haverall as the divine but not the work is stageable, not a view Goethe held with much conviction. And Mr MacDonald's production is another fine example of this venue's bicultural theatrical intelligence, setting the opening and closing scenes not in Heaven but in a rehearsal room, with Gilea Haverall as the divine but



Elaine Woods and Della Wallis

Turangalila/Festival Hall

David Murray

It was a safe guess that Esa-Pekka Salonen was just the conductor to renovate Messiaen's *Turangalila*. Synphonic with the Philharmonia Orchestra, Saturday's performance confirmed it with bells on — and celesta, chock-pickled piano, vibraphone and marimba: nothing jingles like *Turangalila*. It is a sort of huge brass bed.

It cannot be much fun for the players, except the featured soloists (piano and Ondes Martenot) and those who relish flat technical challenges like demands on stamina (will my tone survive all the fortissimos?) and a lot of writing that is virtually transcription of keyboard-effects. Granted a thoroughly proficient band, the conductor has still to keep

them in good temper — which Salonen evidently did, since the Philharmonia made a crisp, warm, beautifully balanced sound all evening. The brass

conducting was admirable, and the sustained string-bells on every note of the "Jardin" melody never slipped. The games with irregular rhythms were like and lucid, and the most overweening tutti kept a spacious breadth. Beyond those executive essentials (for a raw-sounding *Turangalila* is an interminable horror), the conductor must also sculpt the Leitmotives to the sharp, possible although since they are iconic objects rather than themes for symphonic development. Salonen presented them as incisively — and unsentimentally

— as could be wished.

He had superlative principal soloists. At the Ondes Martenot, Tristan Murail offered fresh subtleties in a part which does little more than double the violines except when Messiaen wants a glissando-bowl, and he eschewed saccharine additivities. The pianist was Paul Crossley, whose tone was properly penetrating and brilliant as needed, and who has mastered the right style of impersonal cadenza-rhetoric — grand gestures, wielding the rubato that the orchestra is denied, but with no intrusion of subjective feeling. *Turangalila* gleamed again, crazily wilful but imposing; rather like the Watts towers, if only they were hung with devotional pictures and pious footnotes.

Faust/Glasgow Citizens'

Michael Coveney

Last year the Berliner Ensemble brought to the Edinburgh Festival a four-hour version of merely the Urfaust of Goethe; the delightfully incorrigible Glasgow Citizens have now produced the entire work, a well-organised smattering of Paris One and Two, in merely three and a quarter hours. Louis MacNeice abridged Goethe's 12,000 lines to about 8,000 for his 1949 radio version (still a marvellous text). I would guess that Robert David MacDonald has cut a good bit more.

Part Two is rarely performed in Europe, never as far as I know, on the British stage. But without it you cannot see *Faust* as in George Steiner's words, "a sublime melodrama" with the hero getting the better of Mephistopheles. He may not win the wager struck in Part One, but he does not lose it, dying on a vision of an affable society in a free country. Mephistopheles, dazzled by the angels, declares he has been seduced by God as Faust is quietly transported to heaven. Long metaphysical speeches, complex classical allegories and various Greek gods have been cut from Part Two. But the Citizens' approach is confidently based on an assumption that the work is stageable, not a view Goethe held with much conviction. And Mr MacDonald's production is another fine example of this venue's bicultural theatrical intelligence, setting the opening and closing scenes not in Heaven but in a rehearsal room, with Gilea Haverall as the divine but

Rate-switching pays off, too. In the ease of John Wagland, a mysterious floating student in Part One who is most ingeniously employed in Part Two as Paris: the scientific baby (Wagner's *Homunculus* is a fully embodied spirit stepping free from Selenophane's wrappings), the named resurrection of Faust and Helen. Euphoric; and the angelic anchorage of the last scene. And his costume is a tracksuit throughout. Julia Blacklock voluptuously statuesque in a scarlet dress, is offered, a little uselessly, as a parody of Greek tragedy; as a muzzled dog, presumably representing the censored Faust, is an image in need of decoding. The translation is almost relentlessly witty, catching both Goethe's faded coarseness of rhyming couplets, and lines that are as much a series of iambs and even sharpening up Goethe's erudite references. Notable contributions from Robin Soeller as an eager, breathless Wagner and Robert Taylor as a less than reliable which complete a production that makes creative light work of seemingly intractable material.

Toys in the Attic/Watford Palace

Martin Hoyle

Of the first British production, over 20 years ago, of Lillian Hellman's exercise in family tensions, I remember chiefly Woody Hillers' throttled cooing as an old maid, New Orleans style, and Coral Browne's icy sleekness as a rich oddball. The production was portentous to the point of dullness, which explains Hellman's reluctance to allow further British presentations for the rest of her life.

Watford, therefore, have something of a scoop, underlined by solidly sold-out houses and an inventive, lively performance to cope with the demand. Rightly, since Leon Rubin's deliberately lively production evokes a high level of acting, though the play itself strikes me as too long and given to labouring its points excessively. The two spinster sisters who fight genteel poverty in hated jobs are from Tennessee Williams territory. Instead of loving the family home, they loathe it. "Nobody has ever liked this house. Nobody is ever going to." Their feckless brother, returning with his young wife after a long absence, is another Williams-like golden lad whose promise withered and whose big deals disastrously, violently fail. And endemic to the bourgeois South is the theatrical "Deep South" revelation of emotions too ob-

sessive to be healthy, reflected by sister Carrie's devotion to her brother as long as he is dependent on her, and the salacious gains from wrecking the chances of escape. Garrick Hagon plays the gambling Jutan with the manic giggle of the desperate, not quite believing his good luck. The character is saddled with a wife tiresome beyond the call of duty, a sister-in-law, and a prancing around in underclothes. Lysette Anthony occasionally displays straightforward attack but the writing leaves her little alternative but to stare at her eye vigorously beaverwashed.

As her wealthy mother, Gwen Watford's natural kindness makes for an amiable eccentric rather than a fastidious misanthrope. Lysette Anthony makes a fine foil for Hayley Mills's scheming Carrie. A sluttish Williams heroine can be heard in Miss Mills's tremulous bit. She is a fine, pale, pale, in the face, with lines of frustration and purposefulness: an intelligent, tense performance — though Miss Mills also looks too young to be an old maid. Now makes one look forward to seeing her again.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music

LONDON

English Chamber Orchestra, conducted by Jeffrey Tate, with Oleg Shumakov, violin, Dutton, Mendelssohn, Dvořák and Haydn. Royal Festival Hall (Mon), (023 3191).

Chorus Opera, conducted by Brian Wright, with Patricia Kewell (soprano), and Ian Partridge (tenor), among the soloists. Handel's *Heracles*, Queen Elizabeth Hall (Mon), (023 3191).

London Sinfonietta, conducted by Elgar Howarth, Maxwell Davies and Tippett, Queen Elizabeth Hall (Tue).

London Philharmonic Orchestra, conducted by Yevgeny Svetlanov, with Cecilia Onda, piano, Brahms, Mozart and Franck. Royal Festival Hall (Tue).

PARIS

Marie-Ewing recital (Mon): Théâtre de l'Athénée (74 61 727).

Nikolai Rudy, piano: Haydn, Scriabin, Chopin, Brahms (Tue), Salle Gaveau (023 2000).

Concert in aid of the Marcel Valette Foundation, with Pierre Amoyal, Patrice Fontanarosa, Anne-Sophie Mutter, Mikhail Rostropovich, Isaac Stern and other stars. Beethoven, Prokofiev, Schubert, Liszt, Dvořák (Tue), Salle Pleyel (01 66 303).

ITALY

Milano: Teatro alla Scala, Eliahu Inbal conducting Mahler's 6th symphony (Wed, Thur), (02 58 120).

Rome: Auditorium via Della Conciliazione, Giuseppe Sinopoli conducting with Malcolm Frager, piano. Schumann (Mon and Tue), (06 47 1044).

Rome: Oratorio del Gonfalone (Vicolo della Scimmia 1/3). In this delightful 17th Century theatre, the English Chamber Orchestra, conducted by Jeffrey Tate, with Oleg Shumakov, violin, Dutton, Mendelssohn, Dvořák and Haydn. Royal Festival Hall (Mon), (023 3191).

VIENNA

Franz Schubert Quartet: Schubert and Beethoven. Musikverein, Brahms Saal, (01 47 935).

Kyoko Ogawa-Ekman, piano. Schubert, Matsumura, Schumann. Musikverein, Brahms Saal (Tue).

BRUSSELS

Palais des Beaux-Arts: Rotterdam Philharmonic Orchestra, conducted by Jos van Veen, with Chanté, Hoffmann, Mussorgsky (Wed), Liszt, Handel, Schubert, Wolf, Duparc, Debussy (Thur), (02 40 45).

NETHERLANDS

Amsterdam, Concertgebouw. Kenji Kobayashi conducting the Japan Philharmonic, with Oleg Shumakov, violin, Dutton, Mendelssohn, Dvořák and Haydn. Royal Festival Hall (Mon), (023 3191).

Amsterdam, De Meervaart. The 1st Amsterdam Chamber Ensemble (Wed), (02 37 35).

Rotterdam, De Doelen. Gerard Alkemade conducting the Rotterdam and Hague chamber choirs, and the Hague Bach Orchestra, with soloists. Bach, Mozart (Wed), Recital Hall. The Travelling Music Ensemble. Cruell, Klugardt, Beethoven, Tchaikovsky (Wed), (02 37 35).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting Maurizio Pollini, pianist. Liszt, Brahms (Tue), Zubin Mehta conducting Bennett Lerner, piano. Al Copland programme commemorating the composer's 85th birthday, with the premiere of Proclamation (Thur). Lincoln Center (02 42 42).

WASHINGTON

National Symphony (Concert Hall): Rafael Fruhbeck de Burgos conducting Jeffrey Kahane piano. Dvořák, Saint-Saëns, Beethoven (Tue); Rafael Fruhbeck de Burgos conducting Frans Helmerson, cello, W. Schuman, Bloch, Tchaikovsky (Thur). Kennedy Center (202 4511).

CHICAGO

Chicago Symphony (Orchestra Hall): Kurt Sanderling conducting Malcolm Frager, piano. Mahler/Symphony Shostakovich, Mozart, Shostakovich (Thur), (435 8122).

TOKYO

David Gering, cello, accompanied by Tatjana Schatz Schumann, Prokofiev, Liszt, Brahms. Tokyo Bunka Kaikan Hall (Tue), (237 9990; 479 7272).

Kuo Wei, violin, with Simko Tsvetkova, piano: Handel, Faure, Wieniawski, Ysaÿe, Franck, Nikiel Hall (Tue), (440 5541; 270 0251).

Hannes Rastner, organ: Bach, St Mary's Cathedral (Wed), (236 1601; 360 6000).

Saleroom/Antony Thorncroft

Tuning up for a record

THE OUTSTANDING sale of the week takes place at Sotheby's on Thursday when, for the first time in a century, four instruments by Stradivari, three violins and a cello come under the hammer on the same day. One of the violins, known as "Lady Blunt," could fetch £1m, far exceeding the previous best £396,000, paid last year at Sotheby's for another Strad violin.

The "Lady Blunt" was made in Cremona in 1721 at the height of Stradivari's "golden period" and when it last appeared at auction, in 1971, it established a record price of £84,000. Its present owner is acting two more Strads at the sale, the 1725 Willmott (estimated £600,000-£800,000) and the "Red Diamond" (estimated £300,000-£400,000).

The "Red Diamond" had been lost at sea in 1953 only to be found on a beach in Italy, although unstruck. The cello, known as the "Ben Vanuie, ex-Pawle" of 1730, is placed in the £400,000-£500,000 price range.

On the same day, at its new Sussex saleroom near Billingshurst, Sotheby's is disposing of several early items of English blue and white porcelain long

unfashionable among collectors. In the last year there has been a surge of interest, with prices for good examples of the 1750s doubling in value. On offer this week are a Worcester blue and white teapot and cover, painted with the "Captive Bird" pattern, and estimated at £1,000-£1,500, and a Bow mug of 1731, with forecasts around £1,000. Christie's has a most important sale on Friday — a collection of pictures, drawings and lithographs of the early 19th century French artist Theodore Gericault, who died in 1824 at the age of 33. They were assembled by the late Baron E. Buhler, and should realise in excess of £2m. Among the most desirable items is an illustration in watercolour by Byron's poem "The Ghaour" (estimated £100,000-£150,000). Works by Gericault rarely appear at auction. Now suddenly there are 30 oils and 40 drawings, plus the lithographs.

On Wednesday there is an intriguing sale at Christies of 16th century armour à la façon d'Espagne, armour supplied to the Spanish court at the time of the Holy Roman Emperor Charles V, and mostly made in Augsburg and Milan. Some items on offer were certainly in the Royal Armoury in Madrid until the late 1830s.

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FINANCIAL TIMES

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Monday November 11 1985

High-speed sale for gas

THE privatisation handwagon accelerated with a jolt last week, but it is by no means clear that the Government has a tight enough grip on its direction. The sale of British Gas, announced in the Queen's Speech on Wednesday, raises important questions about competition and about future energy policies, to which the Government has given only the most perfunctory answers so far. Most obviously, the conduct of the gas industry will have a major bearing on how wisely Britain exploits its North Sea riches during the next few decades.

Under what conditions can such a heavy responsibility be handed over to a private monopoly? How should its pricing strategy reflect the inevitable decline of North Sea gas? Could increased market competition reduce the need for regulation? How should the gas industry start preparing for the time when its costs will rise faster than those for electricity? The Government's public treatment of these issues has been lamentably thin. Within Whitehall the debate has been cut short almost in mid-sentence by the political decision to sell off gas as quickly as possible. All argument about whether the corporation should be split up into separate parts with at least some competition between different regional companies was terminated last May. Mr Peter Walker, the Energy Secretary, announced then that it was to be sold as one huge enterprise.

Tax cuts

This decision owed little or nothing to the economic merits of the case. The Government's overwhelming desire was to make extra room for tax cuts before the next election. It wanted the first tranche of perhaps £2bn (the same as the cost of a 2p cut in the basic rate of income tax) to be available in 1986-87. But this tight schedule could not have been met without the blessing of Sir Denis Rooke, British Gas's forceful and politically astute chairman. Sir Denis was pledged to oppose any sale that involved the break-up of his empire, so the alternatives were hastily considered. A case could be made for keeping the industry together and for avoiding trouble with its managers. However, the proposed arrangements certainly protect British Gas's monopoly, while its policy of

Collaboration in high technology

TWO EVENTS last week advanced the cause of European collaboration in high technology. What is less certain is how far they will contribute to the goal which underlies collaboration—greater competitiveness.

President François Mitterrand of France caused a mild stir by offering to bring his country back into the four-nation project for an advanced European fighter which the French quit in the summer. And a ministerial conference of western European states made some progress towards defining the still nebulous, French-inspired Eureka plan to encourage cross-border co-operation in high technology. Judging by first impressions, Mr Mitterrand was knocking at an open door. When Britain, Italy, Spain and West Germany decided to go ahead with the EFA fighter, they made it clear that they were willing to take in other partners. What they will not do is repeat the debate on what sort of aircraft it is to be. The French had a different requirement.

Mr Mitterrand appears to have recognised this since he offered to take a relatively small share in the project. It could, however, prove to be more than token participation. By joining in the venture, he would increase opportunities for the French avionics industry to gain business from the EFA. A widening of potential suppliers would be all to the good, as long as they are selected by competition, not by political horse trading.

Symbolic

Given the potential advantages of French participation in the EFA, its sponsors should consider returning the compliment by asking a similar stake in the French plan for its own fighter. Opportunities may emerge for cross-fertilisation between the two projects and for more co-operation in the future. No doubt Mr Mitterrand's gesture is partly symbolic: two separate and very expensive projects will continue to go ahead. There is symbolism, too, in the Eureka programme. There is growing support for the view that more collabora-

tion between companies, not only in pre-competitive research but also in commercial development, is one of the keys to improving European competitiveness. The evidence for this view is scanty. Collaboration is not the basis of US and Japanese success in high technology, although both countries make some use of co-operation at the pre-competitive stage. It is true that in some high technology sectors there are too many European competitors, none of which enjoys economy of scale. But the correct response to that may be, not collaboration, which enables them all to stay in business, but a reduction in their number through mergers and takeovers. The worst outcome—and it is a danger inherent in Eureka—would be a network of interlocking agreements which had the effect of weakening competitive pressures.

Collaborative ventures of course can co-exist with intense competition, as for example in the European motor industry. An electronics company may choose to pool its efforts in one particular technology with those of a rival, thus achieving economies of scale in that field, without the upheaval of a full merger. Whether such agreements need the stimulus of government backing is more debatable.

Perhaps the existence of Eureka will encourage European high-technology companies to look more actively for joint ventures (and takeover opportunities) within Europe, rather than with the US or Japan, and thus develop a more European attitude of mind among industrialists. That, in turn, could lead to more pressure from industry for the removal of trade barriers within the EEC.

If the effect of Eureka is to reinforce the drive to open up government purchasing and establish common technical standards in Europe, it will have served a useful purpose. But for that to happen governments will have to accept a much greater degree of interdependence in high-technology products, implying a smaller role for at least some of their national champions. That is when the really difficult decisions have to be made.

NO QUESTION about it—there is a new spring in these days in the dip of Mr Terence Mallinson, the only remaining member of his family to sit on the board of Mallinson-Denny, this timber products group.

It is a different atmosphere, says Mr Mallinson, group marketing director. "The six directors are now a close knit club, whereas before we were all getting on with our jobs separately. Nobody now has any doubts about the efforts being put in by anybody else. There is a more direct communication between us. The feeling now is one of being proprietors rather than staff."

That expresses the positive side of what it is like to be at the helm of a management buy-out. Mallinson-Denny's directors, staff and 25 financial institutions paid about £20m in August to acquire the operation from Brooke Bond — by then part of the Collier — in what is the biggest deal of its kind involving a wholly British-owned company.

It is an example of a type of transaction which is increasingly driving the City of London's imagination. Huge sums are being mobilised to back management buy-outs of a size and complexity which would have been thought impossible a few years ago.

About £715m has been spent on management buy-outs in the UK so far this year, only just short of the total for the whole of the previous year, estimates the accountancy firm Peat Marwick. Mr David Carter, partner responsible for coordinating buy-outs, believes that the total could reach £1bn by the end of the year.

The size at which they are taking place is also expanding. Thirteen buy-outs worth more than £10m have been completed so far this year, which compares with an average of £500,000 to £1m for last year's buy-outs.

Four specialist management buy-out funds have been launched since July—three of them in the past month—making available between them at least £432m in equity.

The total purchasing power they represent is, however, far greater. If the companies involved borrow three times as much as they raise in equity, the par for the course in this year's larger buy-outs — then those four funds alone speak for £1.3bn.

The City's excitement over this increasingly fashionable phenomenon is tempered with disbelief from some quarters that there can really be enough latent buy-outs to absorb all that finance. Anxieties have been voiced over the consequences of heavy corporate borrowing and whether it would be in the venture capital industry's best interests to stray too far into an area on the borders of its mainstream activities backing young companies.

"The psychology is ahead of the business," admits Mr Jon Moulton, managing partner at Schroder Ventures, which recently launched a £72m fund. But he argues that the very existence of such a large pool of cash will prompt more British managers to consider the advantages of going it alone. Mr Moulton says: "If it is believed that these things can be done, then more managers will say to themselves: 'If the parent is going to sell our division, maybe we should buy it.'"

Others fear that the buy-out market already risks getting out of balance. Mr Ewen Macpherson, director of St's City office — the group finances at least

Amaz cuts dig deep

The writing has been on the wall for some time at Amaz, the former US mining giant. So the news that Pierre Gousseland, the French-born chief executive, is handing over the reins to the 52-year-old Alan Born does not come as a surprise.

While Gousseland will stay on as a non-executive chairman, and the company is describing the change as an orderly management transition, the general view on Wall Street is that the burly Frenchman has been nudged in a last ditch effort to salvage the ailing mining giant.

John Goth and Elwin Smith, Gousseland's two key subordinates, said in September that they were taking early retirement. One Wall Street analyst likened the managed changes to "Shuffling the chairs on the Titanic."

Amaz's losses have mounted, and it has been deeper and deeper into debt. Wall Street has been alive with rumours that the Amaz board was preparing to give Gousseland aged 63, his marching orders. With Amaz shares hanging along close to their low of \$10.50, Amaz's shareholders have never forgiven him for turning down a \$72.50 share bid from Chevron at the height of the precious metals boom four years ago.

But the main criticism of Gousseland has been that he has been too slow to cut back the mining empire he inherited from Ian MacGregor, who went off to make money on Wall Street and later answered Mrs Thatcher's call to help reshape British Steel. Then the National Coal Board.

During MacGregor's ten-year stint at the top the Amaz group expanded rapidly and borrowed heavily on the expectation of higher metal prices.

Since then, as commodity prices have fallen, Amaz has piled up losses of \$1.6bn and has seen its assets shrink from

Buy-outs are the fashion, but there are still a few doubts

By William Dawkins

half of Britain's buy-outs — points out that a surplus of money chasing a shortage of deals can only lead to prices being pushed up. "If all those funds were actually made available, then rates of return would be forced down," says Mr Macpherson. Mr John Bots, managing director of Citicorp Investment Bank, whose venture capital arm launched a £100m fund last month, believes that this has already begun to happen.

Prices for buy-outs are being forced up, he says, because "everybody is trying to get into unquoted situations and salt away some performance for three years' time."

Management buy-outs are made possible by the purchasers' ability to use the assets of the business they are buying as security to borrow the acquisition price. For that reason, buy-outs tend—though not always—to include cash generative businesses, often in mature industries, with large assets which can be used to guarantee the debts.

Good examples include Mallinson-Denny, which ended up with £82.5m of debt backed up by just £22.5m of equity. Fiat Freight Consortium, SFF Group, English and Amer. Insur. Hugin.

John Collier, Thompson Shoes, Richard Shoes, Evans Halsey, Paragon Group.

Uncompleted deals.

There was a risk, warned Mr Walker, that a company saddled with high debts would find "its capability to make long-term commitments reduced." This was particularly true in the US. A classic illustration is the progress of Purex Industries, a Californian maker of cleaning products, whose management launched in 1982 a successful \$55.5m (£247m at today's exchange rates) cash bid shortly after a tentative approach from Esmark, the food, chemical and garment group. Purex found itself with roughly eight times more debt than equity and ended up falling into the arms of Greyhound, the transport and food group, for \$264m early this year.

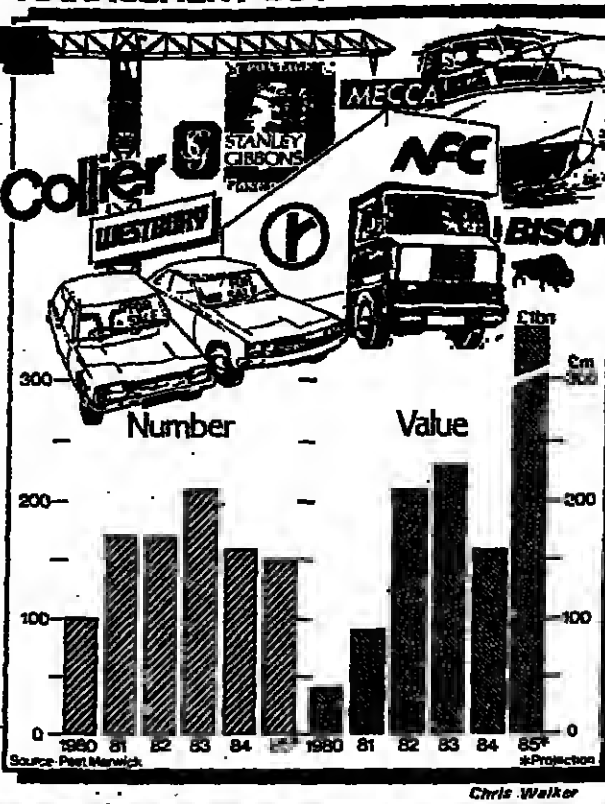
The only British group to have beaten off an unwanted bid in this way is the engineering concern Haden, which attracted the attention of Trafalgar House just as it was beginning to recover after two years of declining profits. Mr Philip Ling, Haden's managing director, admits: "Previously our idea of success was to expand and go for acquisitions. Now we are bound to consolidate our position and go for cash generation and debt repayment."

But that is not necessarily a bad thing, he argues. "It may be a jolly good discipline to keep your head down. There is a lot of waffle talked about long-term horizons."

The surge in the number of buy-outs, meanwhile, presents the venture capital industry with welcome investment opportunities at a time when it is complaining that quality investment proposals—especially from start-up companies—are thin on the ground.

This could be unhealthy, warns Ms Sue Lloyd, managing director of Venture Economics, a research consultancy. "Large management buy-outs are really becoming an exercise in corporate financing and moving out of the venture capital world. If everybody moves up

MANAGEMENT BUY-OUTS TAKE OFF



the scale, there is a danger that a gap will be left at the bottom end of the venture capital market," she says. Not every venture capitalist would agree. Mr Ronald Cohen, chairman of the British Venture Capital Association, points out that less than a third of UK venture capital last year went to buy-outs, with the rest in expansion and early stage companies. Buy-outs are valuable to his industry, he says, because "anything we can do to make the corporate climate more entrepreneurial will benefit us."

If British managers are becoming more entrepreneurial, that is not the only reason for the growing popularity of buy-outs. Many large corporations now feel that they need to pull out of peripheral activities and concentrate on their core businesses after years of expanding through sometimes hastily considered acquisitions.

The size of the deals being achieved has leaped into a new league this year partly in response to an array of increasingly sophisticated financing techniques being developed by the City. This is happening at a time when many banks are keen to build up their industrial loan

portfolios, having burned their fingers in the Third World. "To be honest, it's natural growth," says Mr Michael Stoddart, chief executive of Electra Investment Trust, which manages with Candover Investments a £250m buy-out pool, the biggest of its kind in the UK.

Returns can be quick because buy-outs tend to involve well developed companies with experienced management which can soon be floated on the stock market; indeed most of the recent batch of buy-outs have announced plans for a flotation in the next few years.

This has been the case in recent flotation successes like the Wardle Electronics, Sarasota Technology and Carborundum Abrasives, all of which went public last year and now stand at valuations many times their original purchase prices.

The four directors of Carborundum, for instance, have seen the combined value of their (undiminished) 49.9 per cent stake in the company rise from almost £300,000 to £3.7m since it was floated on the over-the-counter market early last year. Carborundum has swung from losses of £3.6m in the year to December 1983 when it was an unwanted subsidiary of Soblo, the US oil group, to pre-tax profits of £1.5m last year.

Its independence immediately eliminated £500,000 a year in central computer and insurance charges and left it free to raise outside funding for a buy-out of new plant. Soblo had never been interested in developing its abrasives business, which it picked up almost by accident as part of the acquisition in 1981 of Kennecott, the US copper group.

They just put it enough money to keep the business going," says Mr Trevor Egan, Carborundum's chairman. The annual rate of capital investment has more than doubled to an average of £3m since the buy-out in January 1984.

One reason why quick returns can be achieved in unquoted buy-outs, says Electra's Mr Stoddart, is that changes can be made much faster than would be the case if there were a large number of shareholders, many of whom could exert much individual influence over the company.

"Control lies with very few people, so if action is needed, action can be taken quickly. You can make longer-term decisions without having to keep all what will affect the share price," he says.

When Molins, producer of cigarette-making machinery, announced plans for a £50m buy-out in September, Mr Christopher Ross, its managing director, pointed out that the publicity quoted group would "benefit greatly from the confidentiality of being a private company."

Other large companies may follow the example of Molins. We have seen the first signs that the buy-out market is about to take off," says one venture capitalist. Yet others are aware that fashions—even on this scale—can prove fickle.

Mr John Coyne, whose research at Nottingham University has made him a leading authority on buy-outs, warns: "It used to be a good negotiating ploy for management to say that they couldn't pay any more because the funds were not available. Now that the funds are available, vendors are going to get greedy. It will only take a few spectacular failures to bring the whole thing tumbling down."

THE MAIN DEALS OF THE PAST FIVE YEARS

| Year | Company | Purchase price (£m) | Sector |
|------|--------------------------|---------------------|---|
| 1981 | Ansafone | 14 | telephone answering machines |
| 1982 | Stanley Gibbons | 9 | stamp dealer |
| | Vitalcine | 11 | mechanical engineering |
| | Stone International | 18 | railway air conditioning |
| | First Leisure | 44 | leisure |
| | Natl Freight Consortium | 53 | transport and storage |
| 1983 | SFF Group | 9 | fluid engineering |
| | English and Amer. Insur. | 16 | insurance |
| | Hugin | 13 | electronic point of sale and cash registers |
| | John Collier | 38 | menswear |
| | Thompson Shoes | 40 | shoe retailing |
| | Richard Shoes | 50 | fashion chain |
| 1984 | Evans Halsey | 9 | motor dealer |
| | Paragon Group | 14 | computer peripherals |
| | | 17 | industrial conglomerate |

* Uncompleted deals.

| Year | Company | Purchase price (£m) | Sector |
|------|------------------------|---------------------|------------------------|
| 1985 | Simplex | 28 | electrical equipment |
| | Wordplex | 25 | office automation |
| | Bahco | 9 | hand tools |
| | Bison | 10 | civil engineering |
| | Wills Faber | 10 | insurance underwriting |
| | Alexander Howden | 12 | insurance underwriting |
| | Westbury Homes | 12 | housebuilding |
| | Vesper Thornycroft | 19 | shipbuilding |
| | Wades | 19 | furniture retailing |
| | St Regis | 32 | paper and packaging |
| | Moltus | 56 | engineering |
| | Haden | 56 | engineering |
| | Reed Building Products | 61 | building products |
| | Mecca Leisure | 68 | leisure |
| | Mallinson-Denny | 90 | timber products |
| | Mardon Packaging | 173 | packaging |
| | English Estates | — | property development |

Source: Peat Marwick.

Men and Matters

\$3.5bn to \$3.5bn. The group stopped paying a dividend earlier this year, has nearly halved its workforce, and has been selling off pieces at its business units.

Wall Street analysts are still wary about Amaz's prospects. "The company is finally attacking its problems. If it had not done so its bankers would have forced it sooner or later," says one analyst.

Back marker

Julian Critchley, the controversial Conservative member of parliament for Aldershot, is more able than many members of his party and more articulate than most. But he seems destined to remain on the back benches as long as Mrs Thatcher remains party leader.

He has been far too independent and outspoken. And it is hard to see that his latest exercise in political commentary, an astute look at the current state of the Tory party, in the broadsheet tonight on the television programme World in Action, will do little to improve his prospects for preferment.

According to Critchley, the party has changed substantially from the "grand old days" of Macmillan, and it has not always been changed for the better. He says: "As Margaret went up in the world, so the party went down... the Military Cross gave way to Rotary Club badges... the knights of the shires have given way to the knights of the suburbs, including the estate agents, the accountants, and above all the party professionals." Critchley's complaint seems to be that there is less room nowadays for the flamboyant and the irreverent.

Norman Tehini and Jeffrey

Archer, chairman and vice chairman of the Conservatives, both declined to take part in the programme.

Taylor, the aggressively working class Scot who regards Thatcherism as a crusade.

Davison's drive

Gerald Davison, aged 42, who sent Honda's British car and motor-cycle dealers into a spin when he quit abruptly as director of the importer's British operations recently, has left the motor industry.

Having spent so much time fighting off newsmen as to why he quit Honda after 17 years' service he has now joined them—as managing director of the Jersey Evening Post newspaper. Davison's role is not confined to the paper, however. He has joined the board of its parent W. E. Guiton, a fast-expanding group in publishing, printing, holiday and business travel, retailing and video.

Although he qualified as an engineer Davison's talents have been applied mainly in the sales marketing field for Honda. They were needed. Three years ago Honda was suffering a crisis of confidence with its dealers.

Special deals to some retailers, and other manifestations of disaffection, were the result of widespread protests to Honda's wholly owned British subsidiary. In a major management shake-up Davison effectively took charge of Honda's British business. He is credited with having virtually single-handedly put Honda's British house in order. Indeed such was the dismay of the dealers at learning he had quit that the dealer's council leaders fired off a Telex of protest to Honda president Tadashi Kume.

Davison still refuses to say

why he quit. Honda will only say there was "a policy disagreement."

However, associates of Davison suggest he was concerned that Honda's future plans in Britain (to have Austin Rover build extra cars for it before manufacturing itself at Swindon) would embroil it in the problems of poor profitability being suffered by Europe's volume car makers.

Futures plans

Mary Lou Carrington from Columbus, Ohio, made her mark in the City of London as the first National Bank of Chicago's first lady. To be precise she was the first woman officer to be employed outside the US by the bank.

This was 11 years ago. She agrees that finance and banking have opened their doors a good deal wider to women since her pioneer appointment.

Now aged 40 she has just moved on from First Chicago, where she had become an associate director, to be measured for a blue blazer and become the new marketing director for the London International Financial Futures Exchange.

Blue blazers identify the LIFFE staff. Wear any other shade amid the colourful crowd trading on the exchange floor and you are quite likely to find that in the course of scratching an ear or sneezing you have just made a contract.

Mary Lou Carrington studied at Ohio University and the Sorbonne before taking a further degree at the European Institute of Business Administration, Paris.

At LIFFE she has a worldwide brief for her marketing team to build up the volume of the exchange business (now running at about \$10m daily in contracts). She plans a two-pronged campaign—using education into the uses for financial futures, and direct marketing to potential end-users for LIFFE in industry and commerce.

Observer

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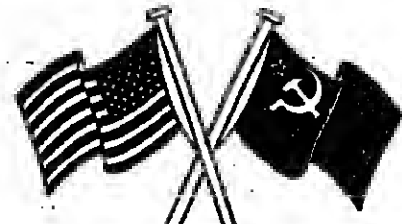
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FOREIGN AFFAIRS



THE SUMMIT



The past is prologue

By Ian Davidson

WE TEND to assume, as we approach the Reagan-Gorbachev meeting in Geneva next week, that East-West summits are a normal and a necessary ingredient in the diplomatic environment. They have acquired some of the mystique of an international security blanket, and prolonged deprivation gives us a sense of its value. From this perspective, next week's meeting is widely felt to be long overdue: the last such encounter took place over six years ago.

If we look at the post-war history as a whole, regular East-West summits have been the exception rather than the rule. Those summits which have, in themselves, made a positive contribution to international peace and security, have been rare still; and a few have been matters worse. With barely a week to go, it is hard to tell which category the forthcoming Reagan-Gorbachev meeting will fall.

The locus classics of regular and constructive summits of the genre in the past 40 years — the annual series of meetings between President Richard Nixon and General Secretary Leonid Brezhnev in 1972, 1973 and 1974, followed by a second summit in 1974, at Vladivostok, between Mr Brezhnev and President Gerald Ford.

It was this clutch of meetings, and these alone, which created the impression that East-West summits are a normal, an essential, and a constructive part of the international circus. But in the totality of post-war history, this was an exceptional period, the period of so-called "detente".

After the Nixon-Ford group, the first summit was five years later, between Carter and Brezhnev in Vienna in 1979; and before it, the most recent such meeting had been the visit of Soviet Prime Minister Alexei Kosygin to President Lyndon Johnson five years earlier in 1967. And before that, you have

to go back a further six years to the only other example of regular East-West summits: General Secretary Nikita Khrushchev's visit to President Eisenhower in 1959, the four-power meeting in Paris in 1960, and Khrushchev's meeting with President John Kennedy in 1961, none of which made a real contribution to international security. And before that, there was the four-power meeting in Geneva, in 1955, which produced equally little.

So it is a testimony to the power of wishful thinking and the desire for peace that has enshrined the Nixon-Brezhnev meetings as the model for what ought to happen.

Yet, as a matter of fact, this wishful thinking, this desire for "peace" was just as strong in the cold war period of the 1950s as it was in the detente period of the 1970s and as it has remained in the 1980s. The first four-power meeting, in 1955, was an amiable affair with smiles all round, and gave rise to the popular idea of a "spirit of Geneva".

The "spirit of Geneva" reappeared four years later with Khrushchev's visit to the US, and was re-christened the "spirit of Camp David", but it produced nothing but a commitment to hold a four-power meeting in Paris the following year. Yet that Paris summit collapsed in disaster when Khrushchev used the shooting down of the American U2 spy plane as a pretext for a violent tirade, political and personal, against Eisenhower.

The Vienna meeting the year after went off even worse, and with damaging consequences.

Khrushchev took advantage of American humiliation over the Bay of Pigs fiasco to bully and threaten Kennedy over Berlin and the German question, and over nuclear testing.

But the real difficulty was that too many of the fundamental political problems of the post-war world were unresolved and apparently insoluble: the status of Berlin, and of Germany, East and West; the validity of the Iron Curtain and the Soviet empire; the relationship of Communist China to the Soviet Union and, most important, the international standing of the Soviet Union itself.

Unless these issues could in some sense be left to have been settled, tacitly or explicitly, there was very little freedom of manoeuvre between Moscow and Washington. But the problem, from the point of view of

US-Soviet summitry, was that none of these issues could be settled by the Americans. They could and did resist Soviet attempts to seek settlements by resort to force, as in the Berlin airlift; but they were not in a position to agree to the disposal of questions which more directly affected other governments.

Only Peking could settle its relationship with Moscow: total autonomy and some hostility. The Germans were essential for any settlement of the questions of Berlin and the two Germanies; that door was opened by Chancellor Willy Brandt and his Ostpolitik in the late 1960s and early 1970s. The west Europeans were essential to any settlement of the Iron Curtain question generally; that issue was fudged in the 1975 Helsinki agreement.

So, by the late 1960s, the preconditions for US-Soviet negotiations were in the process of being satisfied; and they coincided with the arrival in power of an American President who was openly committed, not merely to bringing an end to the Vietnam War, but to start-

ing "an era of negotiation" with the Soviet Union. Moreover, Nixon and Kissinger also made it clear that on both fronts they intended to play a long game. Nuclear weapons negotiations started in 1969; soundings about a possible summit began as early as 1970, but remained secret and the process culminated with the finalisation of the SALT I and ABM treaties at the Moscow summit in 1972.

Even more important, in Moscow's eyes, was the conclusion at the summit of 13 Basic Principles, which asserted that the US and the USSR would conduct their relations on the basis of "peaceful co-existence". This of "peaceful co-existence" was a phrase which had been a constant theme of public Soviet statements ever since 1955; its acceptance by the US in 1972 was taken as final endorsement of Russia's political as well as nuclear parity. But it is striking that the US, then as now, has attached much less importance to these Basic Principles, or to the Agreement on the Prevention of Nuclear War, signed at the 1973 summit.

So what of next week? It is arguable that history is irreversible; that superpower parity is an irreversible fact; that nuclear proliferation permits no alternative to some version of peaceful co-existence; and that the modest achievements of arms control have created a corpus of agreements that must be preserved and improved upon, because elections will demand it. Unless we are being duped by over-cautious spokesmen, there is little chance of progress in this direction next week; but progress will have to be made sooner or later, according to this view, because the alternative is so very much less attractive.

But there is an alternative view which looks, less cheerfully, back to parallels in the 1950s. Khrushchev emerged as the long frost of Stalinism just as Mikhail Gorbachev emerged after the long

Brezhnev era, and he too is proving hyper-active on the international stage, though he is for the moment adopting a much more serene posture.

In 1957, the launch of the Soviet Sputnik helped spur claims later prominent in Kennedy's election campaign that there was a "missile gap", and prompted America's Apollo programme; just as Reaganite hawks claimed that the Soviet Union had acquired a first-strike capability, as justification for massive re-armament, and are now clinging to Soviet research efforts as a justification for the Star Wars programme. And while President Reagan is no doubt personally sincere in his pacific view of Star Wars, there are figures in his administration who see it as a way to recapture the strategic superiority over the Soviet Union which America has not known since the 1950s.

Reports on the recent Moscow visit of Mr George Shultz, the US Secretary of State, suggest that the two sides have a long way to go before they can agree on anything significant, but also that his talks with Gorbachev got quite heated. The chances of anything important emerging from next week's meeting must therefore be rated pretty low. But does that mean that the summit will have to be written off as a "failure"? Not necessarily; but the verdict will lie with Mikhail Gorbachev, not with Ronald Reagan.

Gorbachev will have two options. He can keep right on smiling, claim great progress in mutual understanding, and plan to turn up the heat by propaganda until another summit next year. Or he can throw a historic tantrum (à la Khrushchev...), blame Reagan as the obstacle to arms control, and plan to turn up the heat by malign propaganda. Reagan can hug his Star Wars to his bosom as much as he likes; he cannot determine Mikhail Gorbachev's reaction.

EAST-WEST MEETINGS

| Date | Location | Participants | Purpose |
|----------------|---------------------|--|--------------------------|
| July/Aug 1945 | Potsdam | Truman, Stalin, Churchill, Attlee | Partition of Germany |
| July 1955 | Geneva | Eisenhower, Bulganin, Eden, Fourn | Reunification of Germany |
| Sept 1959 | Camp David | Eisenhower, Khrushchev, De Gaulle, Macmillan | Berlin problem |
| May 1960 | Paris | Eisenhower, Khrushchev, De Gaulle, Macmillan | Berlin problem |
| June 1961 | Vienna | Kennedy, Khrushchev | Berlin problem |
| June 1967 | Glasgow, New Jersey | Johnson, Kosygin | Middle East |
| May 1972 | Moscow | Nixon, Brezhnev | SALT I, ABM limitation |
| June 1973 | Washington DC | Nixon, Brezhnev | Detente |
| June/July 1974 | Moscow/Yalta | Nixon, Brezhnev | Detente |
| Nov 1974 | Vladivostok | Ford, Brezhnev | Arms control |
| June 1979 | Vienna | Carter, Brezhnev | Arms control |
| Nov 1985 | Geneva | Reagan, Gorbachev | SALT II |

Master trusts

From the Managing Director, Abbey Unit Trust Managers

Sir, — Having spent the best part of two years in detailed discussions with the Department of Trade and Industry on the subject of "managed funds" can I voice an alternative "long view" to that expressed by Barry Riley (November 2) under the heading "Ministry lured into murky waters".

It is not clear where Mr Riley stands on the matter of turnover. At the outset he suggests "churned funds" as a better name, but later in the article a fund "is likely, in practice, to turn out to be distinctly undermanaged". What is however clear is that the DTI safeguards have the potential to eliminate any financial gain to the management company by "dumping" units in a master trust or using it as a source of supply for external demand at favourable prices.

On the matter of internal conflicts between fund managers the requirement for dealings to be at the relevant asset value means that a master trust will deal at the same price with the same assets as it would by buying or selling the underlying securities direct. This also means that the activity of the master trust should not affect the unit price of an underlying fund, thus removing internal conflicts as well as protecting the interests of unitholders in all the underlying (and master) trusts. We have been dealing on this basis for institutions for some time, and have experienced no conflict between fund managers or between the management company and its unitholders. Citing Bernie Cornfeld's unregulated IOS offshore empire in an article about these new totally regulated authorised trusts seems a most unworthy comparison.

Mr Riley states that "you can be absolutely sure you will get a double dose of costs". This is simply untrue in the cases of Abbey Master Trust, and the other two similar trusts launched so far, since none makes a further annual charge and only one initial charge is permitted under the regulations. So far as the general rule is concerned, advertisements must contain a clear declaration of the annual charges on both the managed fund and the underlying funds; so long as the investor is aware of the total annual charges, does it make any difference whether they are made up of one or two doses?

I accept there is room for genuine debate about the most effective way to manage a broadly based portfolio. But surely there can be no doubt that the "managed fund" method merits as serious a hearing as the idea of one

Letters to the Editor

manager covering all the world markets at the same time? It would be strange indeed to deny the application of different specialist skills to a single objective in such diverse fields as medicine, construction, and... for that matter, journalism.

Mr Riley also suggested that the DTI should attend to the "serious gap" left by the absence of no-load funds. The existing framework is already suited to such funds; the Abbey Capital Reserve Trust is, I believe, one of only two authorised trusts which has no initial charge. We have, however, little reason to think that there is a significant demand for such funds in the UK, notwithstanding their success in the US.

D. G. Glasgow,
Bournemouth Road,
Bournemouth, Hants.

Keep Sunday distinct

From Mr C. Townsend

Sir, — I was most disappointed to read your editorial "Recreation and Sabbatarianism" (November 6). So many of the arguments it levelled against those who believe regulations on Sunday trading should be retained were based on misconceptions.

The majority of churchmen oppose unrestricted Sunday trading not on "sabbatarian grounds", but on the grounds that church and society benefit when one day in the week is kept distinct, special and largely free from commercial activity. Such a day provides space in the week for other priorities in life—the priorities of relaxation and recreation, friendship and family life, and the opportunity to worship without hindrance. The idea is that we are more than just economic agents and that the week should reflect this. Deregulation opens the door to a monotony which makes every day the same.

It is not true that the main objections to Sunday trading are based on had economics. Anyone who has read the economic review by the Institute for Fiscal Studies knows that whether deregulation brings costs or benefits overall they will be relatively small. Consumer choice cannot in this instance guarantee the best economic outcome. The IFS notes that "The fact that shops choose to open on Sundays does not guarantee that the gains

derived from greater consumer choice will offset the additional costs elsewhere".

The real case is a social one. Deregulation of trading hours will promote economic freedom but it will limit the freedom of people who work in retailing to give time to their families or their faith. Consumers have six days to shop already. Shop workers have only one day to be with their families or at church. Is it fair to rob them of that one day?

Christopher Townsend,
114 Barton Road,
Cambridge.

Improvements in grain

From Mr J. Teacher

Sir, — Improvements in grain varieties look set to exacerbate an already chronic problem (Europe's food mountains, November 6). Some plant breeding pundits predict that yields on even the most modest of soils should double over the next 10 years. In 1984 production of wheat and barley in the EEC outstripped consumption by about one half and one third respectively. Given static consumption this forecast means that in 10 years' time we will produce, annually, four times as much excess wheat and five times as much excess barley as we do at present. Subsidies at current rates will run into billions of pounds.

Such subsidies would be better channelled into the encouragement of hardwood timber production thereby returning much of the arable land to the high forest from which, many years ago, it was hacked. This would be happy news for those of us interested in conservation, landscape and the profitable use of resources of the countryside.

James Teacher,
Hadow Place, Hadow, Kent.

TV picture proposal

From Mr A. Witham

Sir, — I fear that your short report "TV picture decision nears" (November 5) may well mislead those of your readers who are unfamiliar with the proceedings of the International Radio Consultative Committee (CICR).

Your report stated that "delegates from more than 50 countries and broadcasting organisations" unanimously adopted a proposal for a single EDTV standard for studio pro-

duction and international programme exchange.

In fact the proposal — formulated by Japan with support from the US and Canada — attracted so much opposition among the countries represented in Geneva that it completely failed to achieve the desired status of a "draft recommendation". It remains simply a proposal, with several specific and quite fundamental reservations on the part of countries in Europe and other parts of the world. Unless opinions change radically in the meantime, it stands little chance of becoming approved as a recommendation of the plenary assembly of the CCIR next May.

A. L. Witham,
(Assistant Director of Engineering (Policy)), Independent Broadcasting Authority,
70, Brompton Road, SW3.

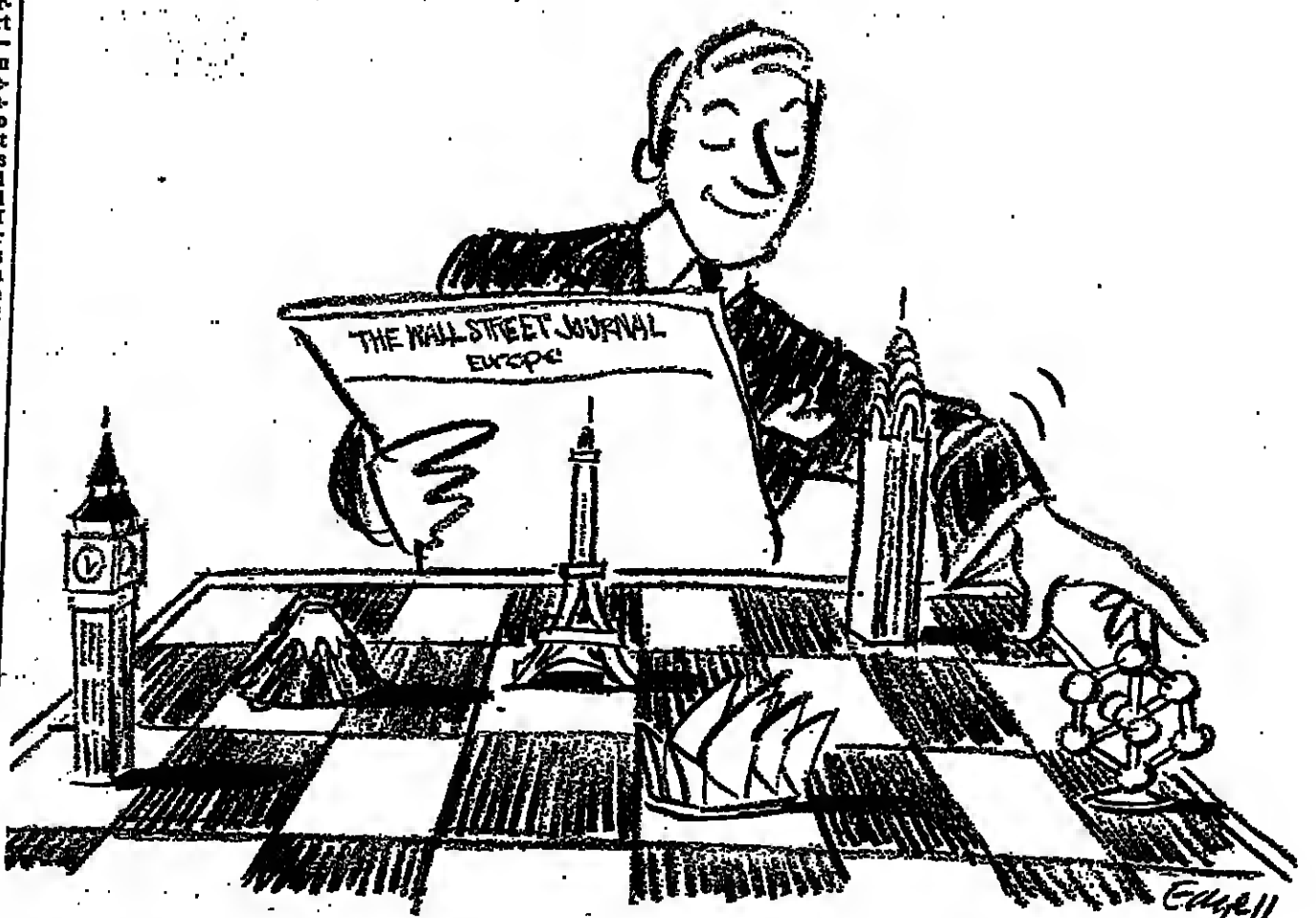
Caution over Channel link

From Mr J. Macdonald QC

Sir, — You are right to strike a note of caution (October 31) about a fixed link across the Channel. The EuroRoute proposal certainly has scale, and it is not surprising that it has attracted so much attention. Its argument that its design is well within the limit of proven technology should be set against the findings of the joint Government study group which reported in 1982.

The study group found that a bridge-tunnel-bridge scheme was the most problematical from the technical point of view. Earlier this year EuroRoute changed the ventilation system it was proposing. Originally a rail tunnel, it was an essential part of its scheme because it was needed to ventilate the road tunnel. Now the rail tunnel has been relegated to the status of an afterthought and ventilation is to be provided via the two islands and one ventilation shaft in mid-channel. When questioned about this EuroRoute was unable to point to any breakthrough in technology which has made the change possible. There are other questions which have not had a clear answer. EuroRoute accepts that the bridges will be closed to high-speed vehicles 5 per cent of the time that is one day in twenty. It was unable to make provision it was making for lorries to wait for the wind to subside. On speed limits it says that traffic will have to move close to the suggested maximum speeds in order to complete the crossing in half an hour. The more questions one asks the clearer it becomes that the project is being pushed through in indecent haste.

John Macdonald,
(Alliance Prospective Parliamentary Candidate to Folkestone & Hythe),
12 New Square,
Lincoln's Inn, WC2.



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VALUATIONS WORLD WIDE

Terry Byland on Wall Street Ecu bonds on path to maturity

THE CHANGE of pace in the US debt markets, which relates as much to international currency prospects as to domestic interest rate considerations, has opened up new challenges for US bond investors.

The prospect of a further slide in the US dollar on the foreign exchange markets, following the 15 per cent fall against principal currencies over the past 12 months, has heightened the attractions for dollar buyers of foreign-currency bonds.

But US fund managers and private investors have not always left at ease with the difficulties involved in fixed-interest investment overseas. The Erisa (Employee Retirement Income Securities Act) pension funds, for example, with around \$26bn invested in foreign equities, have only recently begun to test the water in foreign bonds.

For many US investors, the complications of investing in European fixed-interest markets have stimulated interest in the growing market for bonds issued in New York but denominated in European Currency Units (Ecu).

In the wake of the Ecu 200m bond issued in New York by the European Economic Community in December 1984, that market has expanded to five issues, totalling Ecu 750m.

The attractions for US investors have been all too clear. Measured in dollar terms, returns on Ecu bonds have far outstripped almost all other international and domestic bonds so far this year.

The spread has already widened considerably since the Group of Five finance ministers' announcement and will widen much further

| Bond | Returns in US\$ Jan-Aug 1985 |
|---------------------|------------------------------|
| European Ecu | 31.5 per cent |
| Ecu | 26.1 |
| European Eurodollar | 12.5 |
| Eurodollar | 11.9 |

if the Group of Five plan for the dollar achieves its objective. The handsome return illustrates the attractions of the New York issued Ecu bond as a currency play, for it is largely a reflection of the dollar's slide.

In terms of local currencies, Ecu bond returns are less dramatic, although still better than many straight European currency bonds. Back home in New York, Ecu bonds return only about 9 per cent, against about 10.5 per cent for US corporates.

Last year's fall in the dollar has concentrated attention on the currency side of the fixed-interest equation, said Mr John de Laurence of Merrill Lynch Capital Markets. "In bond investment, US managers must now look at foreign-exchange factors just as European managers look at interest rates."

Unfortunately, outside New York and the other important centres, US funds do not always have easy access to international investment skills. Even at the Erisa funds, which may have as much as \$200bn invested outside the US by the 1990s, according to Intersec, the pension advisory consultant, international expertise is concentrated on the East and West Coasts of the US. Chicago's skill in juggling currency futures does not spread very far into the Midwest.

The Ecu bond reduces the currency risk to a single factor, and eliminates the need for detailed analysis of each European country. Not surprisingly, the US manager has preferred to concentrate the risk in New York's Ecu bond market.

With his level of sophistication, he is better off with an Ecu bond than with a straight currency risk," comments Mr Robert Andrus, vice president of Merrill Lynch Capital Markets, which is a leading market maker in Ecu bonds.

Will the Ecu bond market dry up if the dollar does not fall, and currencies cease to occupy the centre of the Wall Street stage? That seems unlikely, according to the market specialists.

That market has too many long-term attractions to the borrower. The international needs of US corporations are likely to increase, whatever happens to the dollar, and for US and foreign borrowers alike, the Ecu bond is likely to provide access to the massive outflows targeted for non-US markets by the Erisa pension funds.

Erisa investment in foreign bonds has gone from zero to \$3bn and perhaps more in the past 12 months, and that is still a tiny proportion of the Erisa funds likely to go overseas in the next decade.

New York's Ecu market has travelled a long way in its short life. Ready quotations are made in \$5m to \$10m size, and secondary bond deals of Ecu 1m to Ecu 2m are easily traded. Ecu bonds show every sign of becoming permanent features of the New York investment landscape.

FOREIGN MINISTERS IN NEGOTIATIONS ON WIDE-RANGING REFORM

Urgent talks to streamline EEC

BY QUENTIN PEEL IN BRUSSELS

FOREIGN MINISTERS of the EEC member-states, plus Spain and Portugal, today begin an urgent three-week sprint to agree wide-ranging reforms to the founding Treaty of Rome, intended to streamline the Community and make it both more relevant and more democratic.

Two months of negotiations between top-level national officials have so far failed to bridge the wide differences between the members, not only on the form of such amendments but also on whether they are needed at all.

The ministers will now be meeting every week for three weeks leading up to the EEC summit in December in an effort to find common ground acceptable to them all. Yet the process has been thrown into some confusion by the announcement in Bonn on Friday that France and West Germany intend to put forward ideas of their own to the summit on three of the key areas under discussion: technology, the environment, and how to speed up completion of a single common market.

The questions of how to incorporate EEC action on promoting high technology and protecting the environment into the Treaty of Rome are top of the agenda at today's ministerial conference.

Both subjects were the closest to a consensus of any of the issues being considered before the Franco-German initiative was mooted after last week's summit between President Francois Mitterrand and Chancellor Helmut Kohl.

The main disputes still to be resolved concern: how to streamline decision-making on the internal market; what increased powers should be given to the European Commission and the European Parliament; and whether extra powers are needed to promote economic development in the poorest member-states, such as Greece, Ireland and Portugal.

Britain, Denmark and Greece, the three member-states opposed to the whole idea of a conference to amend the treaty when it was voted through at the Milan summit last

June, still reserve their position on whether most of the changes are necessary.

On the environment, however, the only real point at issue is whether decisions should be taken unanimously or by majority decision.

The Commission has proposed that "framework decisions" to decide the broad outline of environmental policy should be unanimous. Thereafter, details should be decided by majority vote.

The UK argues that on environmental questions, it is the detail and not the outline that is most crucial and therefore still needs to be decided unanimously. Only questions of implementing such policies should be decided by a majority.

On the other side, West Germany calls for majority voting with an added requirement that any member-state already more strict on environmental questions must be part of the majority, giving it an effective veto right.

The most contentious issue to be considered today is the demand by Greece in particular for more specific commitments to "cohesion," or helping the poorer states to catch up the richer.

Greece wants to link such action to faster progress towards a unified internal market. Most of the northern states, such as Britain and West Germany adamantly oppose any commitment that means more money being paid out.

On technology, the member-states agree that more needs to be done to underpin European research and development, but the exact form and wording is still under discussion.

Luxembourg, the smallest EEC member, in the invidious position of chairing the conference, will be urging the ministers to reach broad agreement on these issues, so that the momentum can help to resolve the issues of the parliament's powers, and decision-making on the internal market before December.

European high-technology co-operation, Page 18

Fabius rebuffed at convention

BY DAVID HOUSEGO IN PARIS

THE FRENCH Socialist Party sought to distance itself further from the right-wing opposition at the weekend at a convention called to finalise the party's programme and its list of candidates before the March parliamentary election.

The emphasis on socialist values at the meeting was a rebuff to Mr Laurent Fabius, the Prime Minister, who had shocked many of the rank and file for failing to mention the word socialist in his television debate with Mr Jacques Chirac, the leader of the neo-Gaullist RPR party, a fortnight ago. Mr Fabius was not present at the two-day convention.

But, reflecting the dull performance he gave in the TV debate, his popularity plunged five points in the IFOP public opinion poll published over the weekend, with only 33 per cent of those questioned expressing confidence in him.

It was Mr Michel Rocard, now one of the front runners as the Socialists' next presidential candidate, who most exploited the Prime Minister's discomfort by arguing that the party should fight the campaign on socialist values. In face of the right's aggressive free-market orientation, he told the conference, "socialism still has much to offer France."

Mr Rocard is in a strong position to take this "pre-socialist" line, in that he was the moving force behind the party's recent shift towards making industrial competitiveness the heart of its economic programme.

The election manifesto as it is now emerging reflects the increasing social democratic credo of the party. It combines priority for re-educating economic competitiveness with measures to protect the more vulnerable members of society

through a "minimum social wage" and special assistance for those affected by industrial restructuring. In contrast to the emphasis on nationalisation in the party's manifesto before the 1981 presidential campaign, the draft programme sets out the possibilities for nationalisation to spin off their subsidiaries.

None the less, Mr Jospin in his closing speech to the convention spelt out what for the Socialists will be a chief theme of the campaign when he spoke of the rift between left and right. "The right is more right-wing than ever," he said. "We should be no less to the left."

He listed nine areas - including social security protection, the role of the public sector, immigration and taxation - where there were wide differences between left and right.

Wellington to open up banking system

By Dai Hayward in Wellington

NEW ZEALAND is to lift all restrictions on its banking system to allow various financial institutions to operate as banks.

Announcing the measures, Mr Roger Douglas, the Finance Minister, said there would be no limit on the number of banks, local and foreign, that could be set up in New Zealand. There would be no discrimination against foreign-owned banks. The Government would allow any institution to operate as a bank so long as it had an issued capital base of NZ\$50m (\$17.5m) and a fully paid-up capital of NZ\$15m. Mr Douglas said the institutions had to show "demonstrable banking expertise" as well as having "good standing in the financial community."

The moves announced end the dominance of the four large trading banks. Mr Douglas said "it would be illogical to fear the entry of foreign banking organisations when three of the four established trading banks are overseas-owned and play major roles in our financial life."

Westpac Banking Corporation and the Australia and New Zealand Banking Corporation have foreign participation. The Australia and National Bank of New Zealand is 100 per cent owned by Lloyds Bank International. The only New Zealand-owned bank, the Bank of New Zealand, is state-owned.

The Minister's statement is the latest step in a series of deregulation moves taken by Mr David Lange's Labour Party since it returned to power in the middle of last year.

The moves began with the granting of foreign exchange licences and have since included the abolition of exchange controls and the floating of the New Zealand dollar.

Japan 'unfair to EEC liquor'

BY LISA WOOD IN LONDON

JAPANESE taxes on alcoholic drinks are discriminating against EEC products, especially scotch, says a report published today by the European Commission. The report, prepared for the Commission by PA International, the management consultants, also criticises the whisky producers.

"Unless the industry is also prepared to be more aggressive, innovative and flexible in its future work in Japan, there is a very real risk that the potential advantages from improvements on the regulatory front could be frittered away," says the report.

Japan is the Scottish whisky industry's third biggest single market and scotch is the largest single product exported from the UK to Japan.

Since 1979 scotch sales in Japan have fallen by more than a third and its share of the spirits market has gone down from 10 per cent to 6 per cent.

The report follows a study of EEC

liquor and wine exports to Japan undertaken because of what it calls "considerable and long-standing dissatisfaction" by European exporters about the relatively low level of market penetration.

Its conclusion will strengthen growing European anger over Japanese tariff barriers. Changes in the Japanese liquor market, including an increase in female drinkers and a trend towards lighter drinks of lower alcoholic content, have contributed to the fall in whisky consumption, the report says.

However, there is "substantial evidence," including the unique liquor tax system on imported drinks, and certain import duties has undermined imports. Parallel imports - sales by third parties not directly linked with the manufacturers - had also had a negative effect, causing price instability.

The report says that, for example, the minimum rate of taxation on

scotch whisky is 41 times the rate of that on shochu, a lighter and less alcoholic Japanese spirit. Overall levels of Japanese duty on bottled imports are between three and 10 times higher than the EEC's equivalent duties.

Japanese liquor tax law has three grades for whisky, which favour domestically produced whiskies.

The Scotch Whisky Association said yesterday. "The report echoes what our industry has said for many years about the sharp discrimination against scotch in favour of inferior Japanese products. We will be urging the British Government and the EEC to continue their efforts to persuade the Japanese Government to introduce a more favourable system of taxation."

It is understood that Mr George Younger, Scottish Secretary, has since his return from a recent visit to Japan, urged his government colleagues to press the Japanese on the issue.

Reason may propose yearly summit plan

Continued from Page 1

Mr Shultz denied that the Administration had first raised and then lowered expectations for the summit. He insisted that the US approach had been "realistic" all along and that Washington had recognised the great differences between two countries from the start.

Privately, however, US officials admit that expectations are being played down so that the outcome will not be regarded as disappointing, and any agreements that do emerge will be seen as a plus for Mr Reagan.

Meanwhile, a potential source of irritation appeared to have been removed when the Soviet freighter Marshall Konyev was allowed to leave US waters, carrying a young Ukrainian seaman who apparently tried to defect to the US at the end of last month and then changed his mind under Soviet pressure.

The US Coastguard let the vessel sail into international waters without interference, despite an outcry in Congress over the Administration's handling of the case, and the issuing of a subpoena for the sailor by a Senate committee last week.

Mr Shultz strongly defended the decision to let the ship go, saying that the US authorities had conducted a careful and intensive investigation to satisfy themselves that the sailor wanted to return to the Soviet Union of his own free will.

Fears on UK tax cuts

Continued from Page 1

total of £139bn by expanding privatisation. Ministers have been put on the defensive by Lord Stockton, formerly Mr Harold Macmillan and a Conservative Prime Minister, who on Friday compared such disposals to the sale of Georgian silver and Old Masters by a country estate in the 19th century.

Both the Prime Minister, Mr Thatcher, and Mr Lawson, in the Commons tomorrow, are expected to defend privatisation though neither is likely to mention Lord Stockton by name since he has the status of a venerable, if mischievous, elder statesman.

Indeed, Mr Peter Walker, the Energy Secretary, was careful in a

weekend speech to distance himself from the latter's views on privatisation and to avoid charges of disloyalty. Mr Walker, a strong personal supporter of privatisation, rejected the comparison with selling the family silver. Instead, he said, it was "transferring the silver from the politicians and the civil servants to the family."

Ministers will attempt to brush aside Lord Stockton's remarks as an old man's teasing and argue that the money raised by privatisation is being used to finance additional capital investment in hospitals, roads and housing.

World Weather

| | °C | °F | | °C | °F | | °C | °F | | °C | °F |
|-----------|----|----|----|----|-----|---|----|----|----|-----|----|
| Algeria | 3 | 38 | 75 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Amsterdam | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Antwerp | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Barcelona | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Beijing | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Bombay | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Brussels | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Cairo | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Calcutta | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Colon | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Delhi | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| London | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Madras | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
| Manila | 10 | 50 | 24 | 75 | 165 | 3 | 38 | 75 | 75 | 165 | 3 |
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SECTION III FINANCIAL TIMES SURVEY

For the past 15 years the development of Oman has been fuelled by oil revenues and directed by Sultan Qaboos. It now has to face the challenge of lower world demand for oil and the evolution of its political system.

OMAN

Contents

| | Page |
|---------------------|------|
| Economy | 2 |
| Political structure | 3 |
| Foreign policy | 4 |
| UK relationship | 4 |
| Oil production | 5 |
| Defence | 6 |
| Agriculture | 7 |
| Education | 8 |
| The new university | 8 |
| Industry | 9 |
| Copper production | 9 |
| Banking | 10 |
| Commercial law | 10 |
| Visitors' guide | 11 |
| Business guide | 12 |

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Individualist state comes of age

By ROGER MATTHEWS, Middle East Editor

OMAN THIS month is announcing three years earlier.

Only then did Qaboos bin Said, ex-Sandhurst, and his father, the Sultan, move against the British. The Sultan, 59-year-old, who after his education in Britain returned home to an unexpected four years of virtual house arrest imposed by his father, seized power with some discretion but effective assistance from a Sandhurst friend who was still serving in the British Army.

The old Sultan shot himself in the foot with a German machine pistol while trying to resist the only blood to be spilled during the takeover. He was flown to London where he died two years later in his suite at the Dorchester Hotel without seeing his son again.

Qaboos had not moved when he did there is little doubt that Western interests would have somehow forced a change in the leadership. Oman, with its 1,700 kilometres of coastline, underpins the Arabian Peninsula. It is a key to the West's oil supply and a powerful influence on the freedom of shipping movement through the Strait of Hormuz.

The message, simply, is that Oman has arrived. It now lays claim to be a modern, independent state, politically stable and capable of defending itself militarily in a hazardous and strategically vital area of the world.

As the heads of state from the other five members of the Gulf Co-operation Council (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain and Qatar) gathered in Muscat for their annual summit last week, they were supposed to understand that Oman was still different. It was from choice, not because the Sultanate was any longer the poorest, least developed and most isolated of the Gulf oil-producing monarchies.

For many Arabs and few Omanis the new image is not easy to grasp. Only 15 years ago the city gates of Muscat were shut at dusk and any pedestrian venturing on to the street had to carry a lantern.

There were literally only a few miles of road in a country the size of Great Britain, school places for fewer than 1,000 children and scarcely any medical facilities. Omanis with the slightest hint of ambition left the country.

They understood that it was not by accident that Oman rejected the modern world. Rather it was the policy of Sultan Said bin Taimur, who had ruled the country since 1932 with a single-minded indifference to the material needs of his people and to the momentous political events which had taken place elsewhere in the Middle East.

By 1970 the southern region of Dhofar was in revolt. Its capital Salalah was under threat and the insurgents were receiving increasing support from the revolutionary regime in neighbouring South Yemen following Britain's withdrawal from Aden.

But under the leadership of Qaboos, the Government not only carried out a classic "beasts and minds" campaign in the south to win over the rebels, but also succeeded. In attracting back to the country its more capable dissidents, some of whom now hold Cabinet rank.

The Oman which has emerged since the war was won in 1975, now bears comparison with the other monarchies of the Gulf which from a much earlier stage in their development started using oil revenues to build a modern infrastructure.

The capital area of Muscat is linked by motorways which cut impressively through the mountains that separate one contribution from another. The architecture is modest by Gulf standards, dominated by the ubiquitous theme of the crisscrossed fort. The desire for ostentation is more clearly present than three years ago, but has not been allowed to take over.

Because Oman was a late entrant to modern development, it believes it has been able to learn from the mistakes of others. The extravagance of a few projects, can, just, be explained by the need to provide for future generations. Nothing

yet clearly wears the "white elephant" label. However, although Muscat creates a positive and powerful initial impression, there is no disguising that its achievements to date and its future development rest on finite assets: oil and Sultan Qaboos. The dominance of each in the economic and political life of the country respectively has become more emphatic during the past 15 years. Omanis will speculate, not surprisingly, about life after oil: they find it just as difficult to conceive of Oman without Qaboos.

For the foreseeable future Oman's economy will remain oil-fed, the prime reason why the Government has been expending its resources in financial planning. The Third Five-Year Development Plan originally due for publication before the end of 1983.

More than 90 per cent of Government revenue comes from the sale of oil and there are few officials in Muscat who would care to hazard what price a barrel they will be able to charge by the middle of next year. So far Oman has been able to insulate itself from world trends, at least in terms of volume, if not in price.

It is not a member of the Organisation of Petroleum Exporting Countries but claims, simply, to support the broad lines of its policy. Nor is Oman a member of the Arab Opec, an odd absence given the Sultanate's poor relations in the Gulf Co-operation Council.

The reason is simple. Oman, at a time of declining world demand for oil and restraint shown by other producers, has been doing everything to maximise its output. It must be one of the very few producers in the world this year to have increased its total sales revenues.

The explanation provided by Oman officials is equally simple. Oman has come late to the market and unlike its other Gulf brothers did not enjoy those halcyon days during which financial reserves mounted inexorably despite heavy spending on infrastructure and development. The Sultanate, they say, is still the poorer relation of the Gulf and is not cushioned by the billions of dollars in reserve enjoyed by countries such as Saudi Arabia and Kuwait.

However, Oman is now in at least the second division of the major league producers. Production is currently running at about 500,000 barrels a day and there are plans for a further 100,000 b/d increase in 1986 if there is a further softening in world prices.

So far Oman's Gulf partners have shown no signs of irritation but the sight of Muscat in such extravagant celebratory mood must surely raise questions about the requirement for any further concessionary aid.

On the other hand Oman's entrepreneurs are expressing a very pointed irritation at the extent to which GCC tariff agreements are damaging the growth prospects of the country's few fledgling industries. The Saudis are being accused of dumping cement on the Omani market and there are fears that whichever of the narrow industrial avenues Oman seeks to explore it will find other Gulf countries already established and with excess capacity.

The Minister for Industry wishes to tell Sultan Qaboos by the end of this year just what the industrial picture will be like in 20 years' time. The answer has to be only marginally encouraging in terms of what it can add to gross domestic product. Oman may have some small success in import substitution, but its relative lack of raw materials dictates that industry can never be any sort of replacement for oil.

The same is almost certainly true of agriculture and fishing. Over 50 per cent of the active population is involved in these sectors but productivity and pricing is such that farm workers are easy prey to the magnetic pull of better wages and more comfortable living in the cities.

Omani officials are well aware of the trend but such has been the imbalance of development between city and rural areas in the past decade that a great deal of damage has already been done and there is little short-term chance of reversing it.

The difficulties are unfavourably exacerbated by Sultan Qaboos's determination to avoid creating a society which becomes dependent on state subsidies and a cradle-to-the-grave welfare state. Omanis are not impressed by Saudi Arabia becoming self-sufficient in wheat — at seven times the world price — or for offering world price incentives that the final price of an item in no way reflects the actual costs of production.

It is a dilemma which no country in the Gulf has been able to resolve and although stronger, the available solutions are equally limited.

But if economic diversification is a challenge so, too, is that of achieving a wider political base. Sultan Qaboos is the absolute power in the country, combining the roles of Head of State with those of Prime Minister. Defence Ministers tend to be responsible individually to Qaboos rather than collectively through the Government.

Such a system apparently worked well immediately after 1970 when there was a war to be won and a range of major decisions to be taken rapidly. However, it has not evolved subsequently at anything like the pace of the country's physical development.

Salaries remain a small part of the rewards an official at senior level could expect to receive. Gifts of land is a popular way of expressing approval: director-generals in ministries recently received a £100,000 bonus to mark the 15th anniversary of their appointment.

Sultan Qaboos continues to make one or two lengthy visits to the rural areas each year where he listens to complaints from tribal leaders and dispenses largesse. Expatriates who have served the Sultan well, without any formal contractual arrangement, been content to rely on traditional Omani generosity in lieu of a pension.

It is a system which has apparently worked well over the years and has particularly contributed to the speed with which major public works projects have been completed during the past few years. However, it is also a system which is bound to come under increasing strain as the country becomes more sophisticated, as more Omanis enjoy higher education, and as the power of the individual finds ways to get to the top of the hierarchy.

The only attempt to widen popular participation in government so far has been through the creation of the State Consultative Council, a modest body of appointed members which listens to complaints and, in the words of its President, "finds a reasonable solution to something." Every solution proposed by the Council has to date been accepted by Sultan Qaboos.

attempt is expected to be made soon, in part to head off further criticism which could accompany the next round of years.

The problem of Western concepts, such as conflict of interest, is that in the Gulf monarchies they sit very uneasily alongside the ruler's traditional power of patronage. While Sultan Qaboos has totally reversed his father's attitude towards the development of Oman, he nonetheless relies on some of the more traditional methods of exercising power.

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A US House of Representatives Foreign Affairs Committee report in 1981 pointed to "the absence of increased opportunities for political participation" as one of the negative factors affecting domestic stability in Oman, but it tended to give as much weight to "the lack of an heir to succeed the present Sultan." Undoubtedly it is the most sensitive political issue in the Sultanate.

Sultan Qaboos was briefly married in 1976 but has no children and has yet to make a decision on the line of succession. There are again rumours in Muscat that he may decide to re-marry, or choose his 45th birthday next week to nominate a Crown Prince. If he opts for the second course the most likely choice would be Fayed bin Mahmoud al-Said, the Deputy Prime Minister for Legal Affairs.

But in the meantime some Omanis are fearful of the power vacuum which could arise, especially if the royal family was unable to agree quickly among themselves on the nomination of a successor. Elsewhere in the Middle East the military almost certainly would prove to be the arbiters, but in Oman this poses particular difficulties because the Chief of the Defence Staff, and the heads of the Air Force and Navy, are all British subjects.

Although not generally regarded as an indigenous ethnic group, British residents in Oman have nevertheless exerted a certain influence on Omani society, as how J. E. Petersen described this unusual phenomenon in his book "Oman in the Twentieth Century."

That "certain influence" shows itself not just in military personnel but in the police and security services. In government ministries, in a range of advisers, in education, in civil contracting, in entertainment (Cilla Black to sing, Steve Davis to throw darts, Eric Bristow to play snooker), and perhaps most welcoming to the British Government, in a stream of contracts which provides for a very positive balance of trade.

It is inevitably difficult for a Briton talking to Omanis to gauge whether the extent and depth of the relationship causes resentment. But even if it is not a cause of great concern at the moment, it will certainly become so in the future unless the official policy of "Omanisation" is pursued with rather more practical effect.

Progress is being made (the Finance Ministry, for example, is substantially Omani) but there is also a parallel tendency for newly-promoted Omanis to appoint an expatriate adviser thereby negating the purpose of the initial promotion.

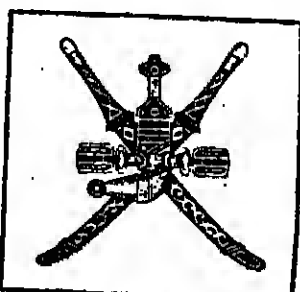
The size of the British presence in Oman obviously has an effect on foreign policy, although it would appear to reinforce Sultan Qaboos's own new direction. Officially, Oman is non-aligned, an attitude recently reinforced by its decision to become only the second member of the Gulf Co-operation Council to establish diplomatic relations with the Soviet Union.

In practice, Oman leans heavily towards the West providing the US with facilities for the Rapid Deployment Force at three of its bases, including the right to pre-position supplies.

The Soviet move had been two years in the planning and was neatly timed to precede the GCC summit in Muscat. Saudi Arabia has been considering similar action and by getting in first Oman was able to demonstrate again that at least in foreign policy issues it is very much its own master.

It showed precisely that in 1978 and 1979 when it first refused to condemn the visit by President Sadat of Egypt to Jerusalem and then declined to join the Arab boycott of Israel once the peace treaty with Israel was signed. And when President Reagan took over in the White House determined that his top priority in the Middle East was a "strategic consensus" to defeat Soviet expansionism, Sultan Qaboos alone among the Gulf states

answered with practical effect. Similarly, it was Qaboos who was out of step at the first summit of the GCC when he insisted that defence and security should top the agenda in response to the regional threat posed by the war between Iraq and Iran. The Sultan has since had the satisfaction of watching the other five states come round to his point of view with the creation of a Gulf Rapid Deployment Force and much closer co-operation on security matters. The need for a "balanced" foreign policy supported by a strong defence capacity is a lesson learned by Omanis in the light of their own 15-year experience. It had begun with Iranian troops on Omani soil helping to defeat a Communist-supported insurgency. It has ended with theoretically hostile Iranian troops just across the Strait of Hormuz and a regime in Tehran which appears as uncompromising to the Gulf monarchies as it is to the Soviet Union.



The Omani dagger with two crossed swords—symbol of the State of Oman

Muscat has been careful to maintain relations with the clerical regime in Iran while nominally supporting Iraq. Few people in senior positions in Muscat anticipate an early end to the Gulf War, now in its sixth year, and the Government has been careful to avoid naval confrontations in the Strait of Hormuz where it operates the traffic separation scheme within its own territorial waters. With the Erna Navy increasingly stopping vessels entering the Gulf in order to examine the cargoes, the onus of avoiding an incident appears to rest heavily with Oman.

How responsibilities will not be in the forefront of Omani minds during the next week when, at least in Muscat, the underlying theme will be one of self-congratulation. None of the thousands of invited guests will begrudge a seek to belittle Oman's achievements during the past 15 years, but they may sense that the celebrations also mark the end of an era.

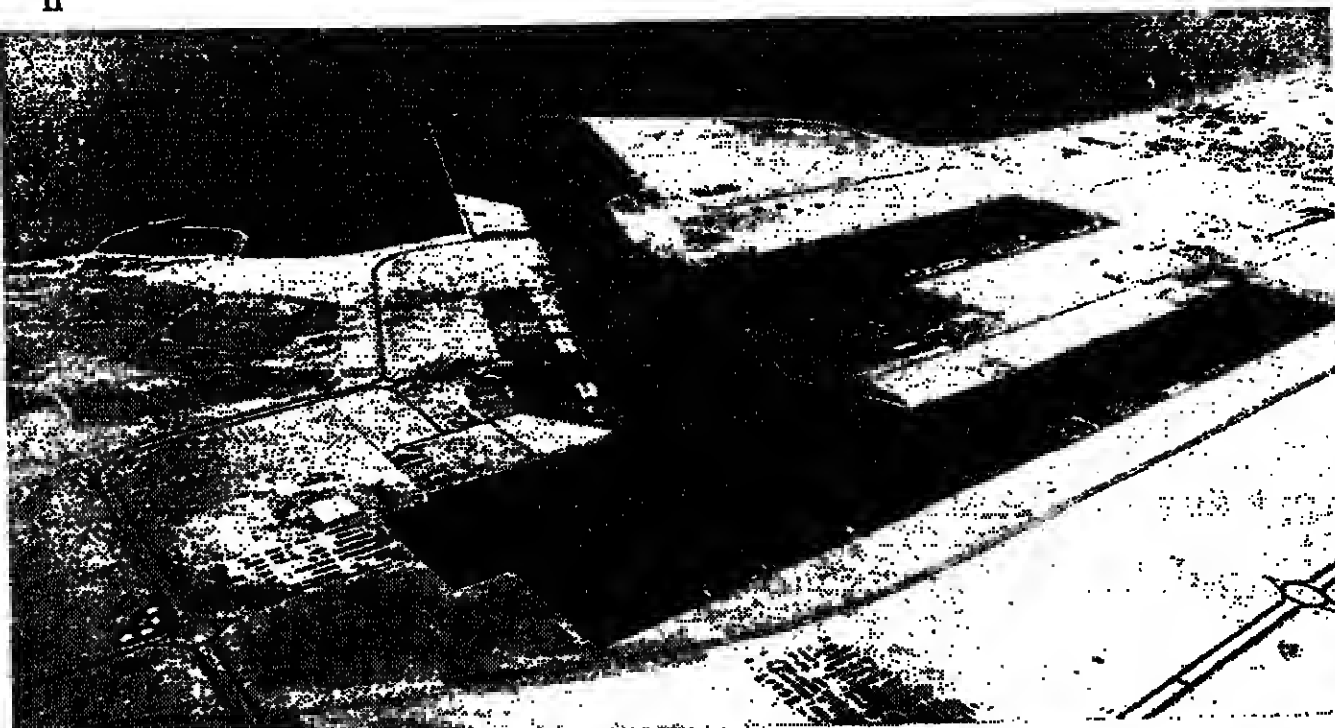
A new generation is coming of age which cannot compare the old Oman with the new and has been educated with aspirations which differ from those of their parents. The old tribal system is breaking down in the rural areas and has to be replaced by a new structure of participatory authority. Government, in general, will have to be seen as it is for the people. It seems improbable that Sultan Qaboos will be able both to absorb an even heavier administrative workload and ensure that his political antennae are well attuned.

During the course of an interview Sultan Qaboos said that he had been "very lucky" during the past 15 years and that future development had to rest on "solid, natural foundations." Oman would never copy anything from anyone.

"Things here must develop naturally. We do not wish to force anything, but neither do we wish to hold back, while still appreciating the traditional way of life of our people." It was hardly a private prophecy for the next 15 years but one that appears to ensure a cautious, conservative evolution that in approach will not differ greatly from the past decade and-a-half. Presumably a further dose of oil could not do any harm.

Pictures by
Terry Kirk

OMAN 2



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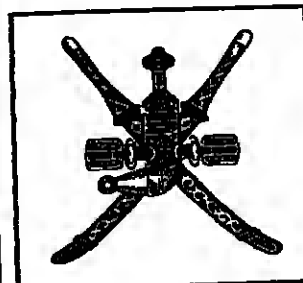


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The Central Bank in Muscat—together with the Finance Ministry it enjoys a reputation for good housekeeping but is forced to borrow on the international markets again next year.

Period of consolidation ahead



Oman has been left largely unscathed by the sharp decline in oil prices, but, as Andrew Gowers reports, there are signs that future spending will require careful management.

AS SAGGING oil prices have taken their toll on other Gulf states over the past couple of years, Oman's economy has looked at times as though it was leading a charmed life.

The Sultanate's development plans have been left largely unscathed by the sharp decline in the price of its main export, and gross domestic product has continued to sail upwards by 11 per cent last year, according to official reckonings.

But that superficially attractive performance has not been achieved without considerable strains, particularly this year. And with the approach of a new five-year plan period starting in 1986, there are signs that the halcyon days are coming to an end.

The big development projects conceived on the back of booming oil prices have been largely completed, and the country is settling down for what will be a period of consolidation at best and severe belt-tightening at worst.

The Sultanate is no less dependent on the vagaries of the international oil market than any of its Gulf allies. Crude petroleum accounts for more than 90 per cent of its export earnings and by far the largest part of its GDP and government revenues.

However, two things set Oman apart from many other oil producers: the extent to which it has been able to offset declining oil prices with increasing production and sales; and the general thriftiness with which—until this year, at least—it has deployed its oil revenues.

Expectations

The big question now concerns how the Sultanate—which still has more development work to do than other Gulf states and inexorably rising popular expectations to appease—will fit its way into a period of less ambitious growth.

For some time to come, 1985 probably will be remembered as the last year of easy money in Oman. The Sultanate's second five-year development plan, the driving force behind economic growth since 1981, is nearing the end of its life, and contractors are racing to complete projects on time.

The circumstances under which the second plan was drawn up could hardly be more different from those prevailing today. Conservatively, as it seemed at the time, it assumed that the Sultanate would be producing a steady 300,000 barrels of oil per day at prices rising by 5 per cent per year from a base of \$24 per barrel.

When crude prices started to decline a couple of years into the plan, Oman was faced with a choice: either to shelve key projects or to try to boost oil revenues by dramatically stepping up production.

Clearly, the revenue and expenditure targets set in the second plan were more imprudent. Mr. Said Bin Ahmad Al-Shanfari, the Oil Minister, puts it like this: "We decided in the five-year plan that we should spend billions, so if the price goes down we have to produce more."

If the price had held at \$30, our production would have been 350,000 b/d today. As it is, prices are hovering around \$28 a barrel, Oman's production is now pushing 500,000 b/d, and oil revenues for this year are put at a record RO 1,442bn.

Any additional deficit was to be covered by foreign borrowing—preferably on concessional terms from Oman's GCC allies, and others, but if not, from

the Euromarkets. Since 1983, the Sultanate has taken out syndicated credits and note facilities with a total value of \$700m, all of it on fine terms. This year, however, there has been an additional complication and an extra spur to the momentum of the economy: a surge of unbudgeted expenditure connected with Oman's 18th National Day celebrations and the Gulf Cooperation Council summit in Muscat.

Nobody appears to know exactly how much money has been lavished on sprucing up the capital for these two events, but it certainly runs into the tens of millions of rials, and will probably take government outgoings above the RO 1,52bn budgeted for the year as a whole.

The over-spending is net large by international standards, and not unduly worrying in that oil revenues are also coming in above budget.

But there is no denying that the Sultan's spree is likely to bring pressure to bear on the balance of payments and contribute to an unprecedented drain on the country's painstakingly garnered foreign reserves.

Senior Omani officials anticipate that some RO 300m will have been drawn from the Sultanate's State General Reserve Fund—the official nest-egg into which 15 per cent of oil revenues have been injected every year since 1980—by the end of this year. This would leave the fund with about RO 950m, to which must be added central bank reserves of about RO 350m.

Even then, there are doubts as to whether the overall balance of payments will be more than slightly in the black for the year as a whole, although officials are predicting a surplus of about RO 100m. That compares with a RO 77m surplus last year, after drawings of some RO 145m from the GRF.

With characteristic understatement, one senior official admitted that the current account was "net looking very good." A foreign observer was more outspoken: "They've savaged the GRF in order to avoid the effects on the banking community of a large balance of payments and government account deficit."

What has raised eyebrows in the financial community is the apparent relaxation of the Omani Government's hitherto rigorous fiscal attitude that this year's surge in spending has entailed.

The increase in spending has been all the more evident because of the country's overall conservatism, a banker says. In addition, there is concern that the familiar Gulf story of delays in payments to contractors is cropping up with increasing frequency in Muscat.

But nobody really believes that this year's events represent more than a temporary extravagance, and in the long run confidence in the Government's good housekeeping remains high.

"Oman is still a very good risk," says one financial expert. Banks were queuing up to participate in the country's previous syndicated loans. If they

went to the market again, I don't think they would have any problem in getting another \$500m at very fine terms."

As the Sultanate lays the foundations for its third five-year development plan, it is proceeding with typical caution. Mr. Qais Bin Abdul Munim Al-Zawawi, the Deputy Prime Minister for Economic and Financial Affairs, says the plan will be based on the assumption of "a rather marked decrease in revenues from oil, and some increase in other sectors."

It will not be a period of easy spending as we've seen. We have achieved many of our major development projects, it will be a period of stability, continuity and stocktaking.

That means, too, that the Government—with a total foreign debt estimated at \$2bn—is not about to plunge further into the credit markets to finance big projects.

Everywhere in the bureaucracy, the message is the same: Oman does not want to take out major loans as part of the third plan if it can possibly avoid it. Officials say that, if things stand, all foreign debts should be paid off by 1990.

Debate

There does, however, appear to be something of a debate in Government circles as to whether it will have to borrow a little more in order to cover the after-effects of this year's spending surge in 1986.

Government officials have now completed work on the macro-economic aspects of the third plan and the focus is shifting to detailed haggling between the ministers over precise allocations of funds.

The process is probably not unlike the British Government's Star Chamber on public spending; at least, it is ruled by the same imperative, of fitting numerous competing demands for funds within a relatively stringent financial framework.

As a result, the plan's publication looks set to be delayed, perhaps until next March.

So far, the very precise indications have emerged as to where its emphasis will lie, beyond the assertion that it will not involve many large projects, and will concentrate instead on development of education, health, agriculture, roads and electricity in the regions, and further diversifications away from oil.

Defence, of course, which has swallowed about 37 per cent of budgeted expenditure this year, will continue to take the biggest single slice.

The ministers' task, though, will not be made any easier by the uncertainties over the level of spending this year, some of which is bound to spill over into 1986. "They probably do not know quite how much they have got in the kitty for new projects," says a diplomat.

Delays in implementation of the plan, compounded by a "leakage" of payments for this year's celebrations, will almost certainly lead to a slowdown of the economy in the first half of next year, although Mr. Zawawi is confident that it

will not lose its momentum.

In the medium term that, ministers face a principal concern: export and recurrent exp.

Although it is difficult at an accurate measurement, prices of a number of staple items in Oman have actually been over the last couple of years.

Primarily, this reflects the fact that the Omani dollar has been pegged at the same level since 1973, but in key exporting to Oman such as the Japan has also played a role.

The worry now is what will happen if it continues to fall against currencies. Some officials, fearing that lead to a resurgence of inflation, have proposed the link between the U.S. currency, and the dollar with the currencies of other U.S. Drawing Right.

This idea appears to have been firmly quashed. But some reckon that without move inflation could sharply next year.

The worry over expenditure is perhaps profound. Up to now of civilian spending in capital construction but these are polarising increasing demand for funds as time goes on.

non project is this University.

Alternative

In defence spending, recurrent accounts, in three quarters of this year's budget, cent of civilian expenditure, compared with never half in 1984.

That is one reason officials are slowly to attention to alternative raising money. They are being steadily increased.

Many significant bankers would not b to see an extension taxation to cover 10 Omani-owned companies as joint ventures, a couple of years.

Omani companies, Chamber of Commerce already made it clear would oppose such There is even discussion of privatisation which presently in at all.

Above all, the Government is to keeping a nervous oil prices, which country's efforts it will remain the majority of Oman's economy for the future.

Although the conservative economic, almost certainly will to live with and decline, with a below \$20 a barrel, be in deep trouble.

Business hopes in five-year plan

FOREIGN contractors in Oman are poring with more than usual care over their local newspapers these days for clues as to where the priorities, and the opportunities for winning business, in the next five-year plan will lie.

They are all aware that the days of the mega-project are more or less over. But far from discouraging them, this realisation is merely spurring on the competition.

"The market is much more competitive than it ever was," says one observer. "You've got big contractors who have finished major projects looking for smaller jobs in competition with local sub-contractors."

Apart from the road, school and hospital building work which the plan is expected to contain, and the inevitable large share of defence spending, the contractors' attention is focussed—with varying degrees of confidence—on several possible larger schemes:

● The Wadi Dayqah dam, supposed to be built 80km west of Muscat at an estimated cost of RO 45m. This is a left-over from the second five-year plan and was expected to help make up for a shortfall in the capital's water supply. All the signs are that this will not now go ahead.

● Port facilities. An extension of the main port at Mina Qaboos in the capital area was suggested in the second plan, but this idea appears to have been abandoned, as the Government considers whether to build a completely new port outside Muscat.

There are doubts, however, as to whether Oman needs another sizeable port at a time of general belt-tightening.

● Power generation. A decision on whether to build a second gas-turbine power station by the industrial estate at Rasail is imminent. The bidders, at prices of between RO 18m and RO 22m, are John Brown Engineering of the UK, General Electric of the U.S., and West Ger-

many's Kraftwerk BBC Brown Boveri.

Following that, possibility of a gas turbine power coupled with a plant on the Rasail possibly at Rasail, use consortium to a feasibility study, reported to cost \$100 bn.

Further power may stem from study of the energy needs in century produce Government by E Switzerland.

● Sewage system: urgent need for treatment and floor facilities appear Salalah, Taym, and Wampy of said to be in a project, which between RO 40 50m.

● A possible refinery to supply market.

AND

Keen sense of timing marks Qaboos rule

SULTAN QABOOS BIN SAID exercises as much, if not more, power internally than any other Arab ruler, but imposed not by dictatorial force but by blending a strong sense of Omani tradition to a Western sophistication—qualities that rarely fail to charm his overseas visitors.

He was one of several Arab leaders who came to power in the 1969-70 period, soon after the humiliation of the 1967 defeat at the hands of Israel and just before the huge explosion in oil prices which followed the 1973 war.

His initial preoccupation with Oman's domestic affairs and the country's relative isolation ensured that he was a little known figure on the world stage when set alongside Anwar Sadat of Egypt, Hafez al-Assad of Syria, Muammer Gaddafi of Libya or even Jafar Numeiri of Sudan. Oman has remained on the fringe of Middle Eastern politics to an even greater degree than its geographical position might require.

In part this reflects the personality of its ruler. Sultan Qaboos is described by those who knew him 25 years ago as having been a rather shy, even withdrawn young man. His father's total refusal to allow him to play any part in the affairs of the country on his return from Britain can have done little to increase his self-confidence.

Yet then, as now, he is a great believer in timing; of acting when the moment is right and not before. Hence his caution in waiting four years before finally taking the decisive action against his father.

In retrospect it has to be seen as an immensely difficult act for Qaboos, who to this day finds it distasteful to have to dispense with someone's services. Those who have been dismissed for whatever reason are usually treated generously and while their pride may suffer their standard of living does not.

It is a characteristic which can encourage inefficiency, but equally it invites loyalty. Very few Omanis, even those who are strongly critical of aspects of government, allow themselves to doubt the correctness of the ruler's intentions. Instead,



A personal blend of the traditional with a Western approach, plus close attention to detail, has enabled Sultan Qaboos to carry out Oman's development with considerable skill, as Roger Matthews reveals in this interview.

they blame the advice which he is given and the doubtful qualities of some of those who are close to him.

To sit with Qaboos in his first-floor office in the royal palace on the Salalah seashore is to understand something of the loyalty he inspires. He speaks softly, laughs deeply and punctuates his conversation with expressions of such studied reasonableness that it seems impossible for the Middle East, with its tensions and rivalries, to be the topic of discussion.

It is a measure of the impact he has made on members of the Government that they can be found saying almost exactly the same things, in an almost identical tone of voice.

Proud

Sultan Qaboos is proud of what Oman has achieved during his rule, particularly the standard of living which is now enjoyed and the educational facilities that are, and will be available, with the opening of the new university next year. At the same time he admits mistakes were made "because in the first five years we really did not have much time to think."

Self-deprecatingly, he says that luck was also a contributory factor, although he would

agree that the difficulties experienced during those early years were handled well.

What Sultan Qaboos does not offer to discuss is just how personally he has been involved in those decisions, and his sometimes extraordinary attention to appearance and detail. The reason that Muscat looks so tidy and well-ordered is because Qaboos watches so closely.

A small development of houses under construction was demolished the day after the ruler decided they were being built too close together. The owner had apparently been attempting to bend the planning rules a little but he was nonetheless compensated for the additional cost of construction. A house that appeared rather too grand for its owner was quietly purchased by the state at a good price and turned into a club for graduates. Unsightly water tanks on the roofs of houses in Muscat have been neatly covered over and there are legal penalties for those who leave filthy cars parked on the street.

Anyone approaching the new university next year will see first a clock tower, a mark of the personal interest taken by Sultan Qaboos in the project which bears his name.

The same high standards and attention to details are also expected of those who represent Oman, whether in Government or abroad. One Minister commented ruefully on the size of the tailoring bill that accompanied a place at the Cabinet table, while army cadets attending Sandhurst or other military establishments are expected to acquire social graces as well as martial skills. It is all part of what Sultan Qaboos describes as "developing our people's capabilities in every way."

It is also a rare, if not unique experience in the Gulf for a head of state to express such a keen interest in the arts, which for Qaboos also includes interior design and gardening. A great deal of care and money has obviously been expended on the gardens at the Seeb palace, north of Muscat, while in Salalah, the flower beds, hedges, lawns and coconut palms lead down to a perfect white sand beach.

The Sultan's musical and artistic interests form part of the British bond and explain friendships which have endured for more than 20 years. He is said still to value "dis-

interested" British advice as much as any other single source available to him. But the real issue in the coming years will be the degree to which the Sultan will be willing to institutionalise Omani advice.

He could, as he put it, create "an empty drum" tomorrow which to the outside world might appear as a step towards democratic rule and he welcomed as such. However, Qaboos is adamant that he will not embark on any development which is not "solidly and naturally based."

He stresses that gradually Omanis are taking increasing responsibility over a wider range of activities and the time for him to act will be "when things are at a certain level and when the people feel that a certain way is the best way."

He could have added that much the same thing happened with the decision to establish diplomatic relations with the Soviet Union, the most surpris-

ing single act he has taken for several years. Qaboos was pleased to have drawn an international reaction. "It's good to keep people on their toes," he says and emphasises that "it was something which had to happen one day, but always on certain conditions." The Soviet Union had finally been willing to accept those conditions and there was therefore no further reason to refuse to accept the hand of friendship.

No illusions

He says Oman had no illusions about the Soviet Union. "They will have their friends while we will have ours." However, it was in general better for the common cause of peace to speak to one another, rather than indulge in confrontations. It is the best way, says Sultan Qaboos, to avoid dangerous misunderstandings.

The Sultan believes that this would also be the best path for resolving the Gulf war, where

neither Iraq nor Iran saw a way out of the conflict. It is not a situation where anyone can dictate a solution and the Islamic Conference Organisation still offers the best chance of progress, he believes.

In the meantime, the Iraqi raids on the Iranian oil terminal at Kharg Island could lead to more extreme forms of action which Oman, with its responsibilities in the Strait of Hormuz, is anxious to avoid. "We have to go really carefully and to consult with the rest of the Gulf Co-operation Council and with other interested parties," Qaboos says.

This emphasis on care and consultation has become so much a Qaboos hallmark that for those few who are less admiring it has become a yardstick against which to measure his performance. There are articulate people in Muscat who claim that in fact he consults less than he used to and that his kindness and innate caution has given less scrupulous people the

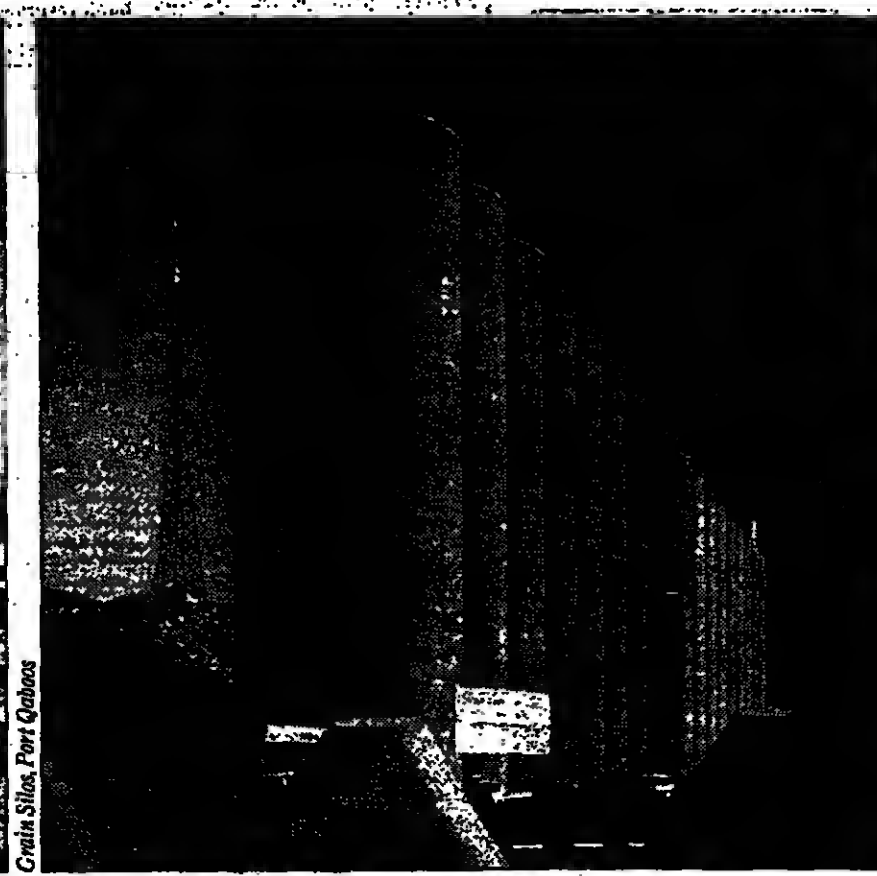
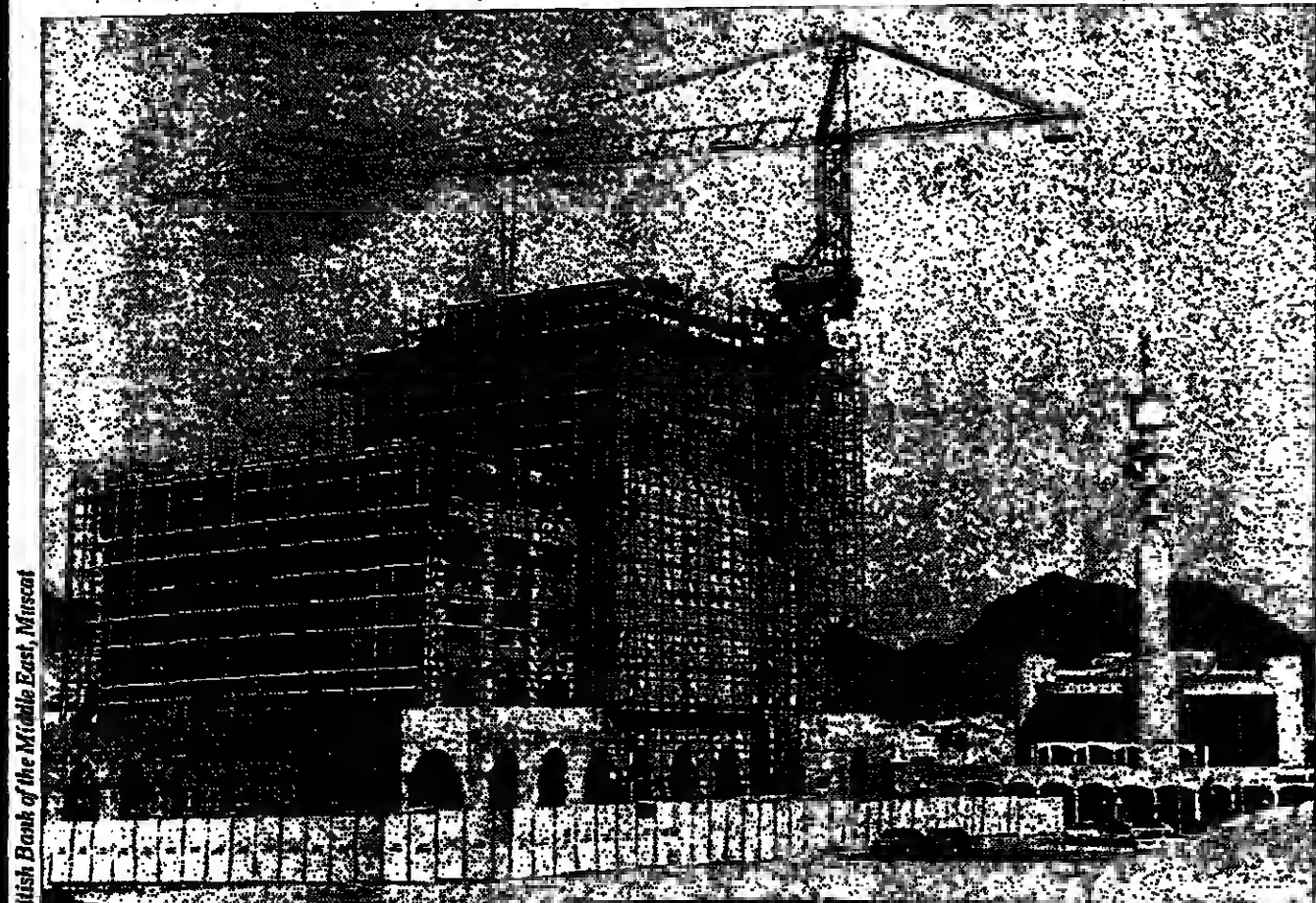
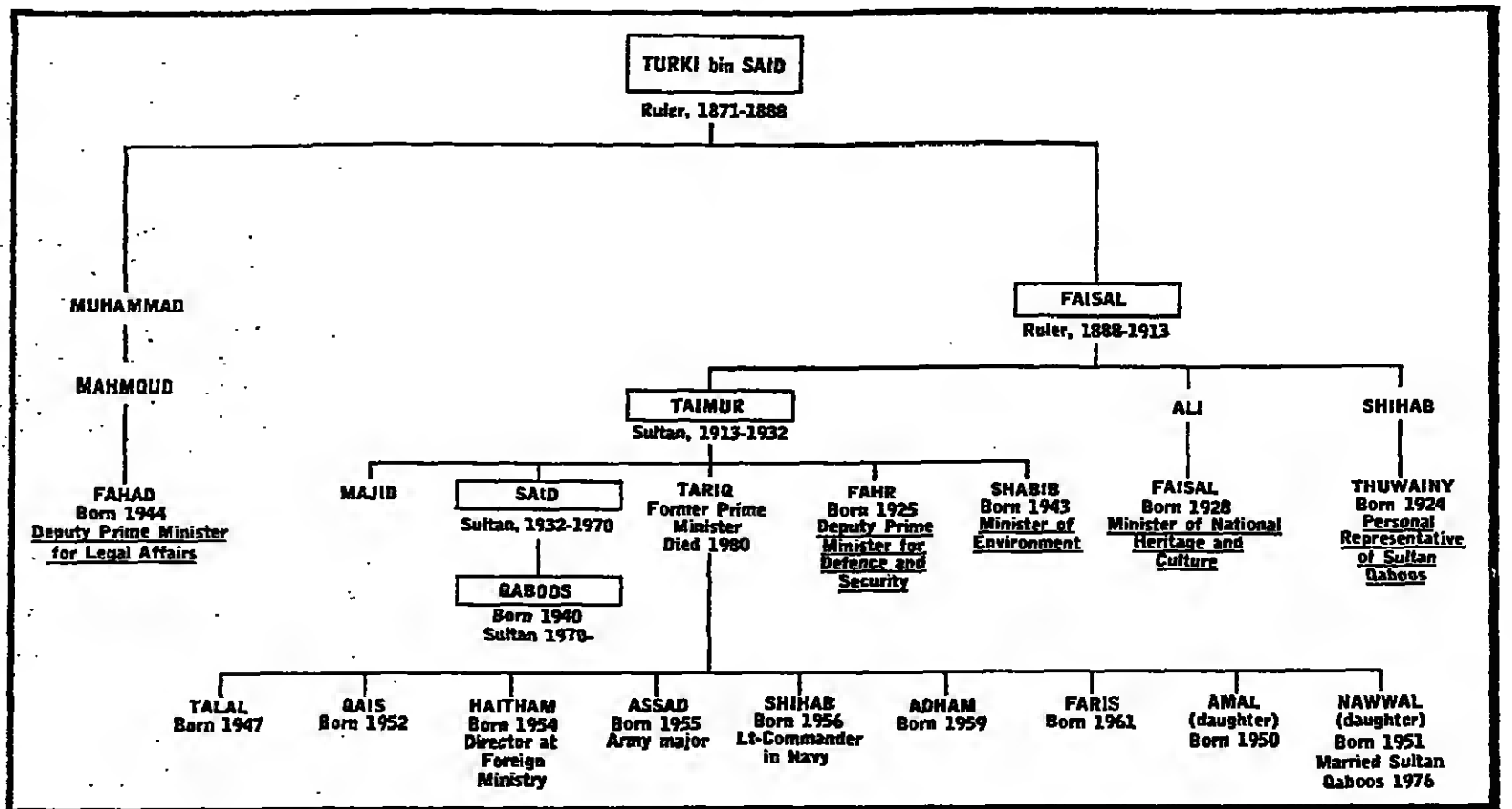
opportunity to acquire enormous economic power.

They wonder how many visitors to the royal court any longer have the courage to express views they suspect will be unpopular with the ruler, and have noted with concern the tendency among some prominent fellow citizens to kiss the ruler's hand when greeting him in public.

"It is not a healthy development," says an official, "above all, because the Sultan has the power to stop it if he wishes. Perhaps he actually enjoys it."

For now, it is not criticism which appears to be voiced widely and is quite minor when set against the experience of those men who came to power in other parts of the Arab world at the same time. Oman under Qaboos has enjoyed one of the most stable periods in its history and its jails are devoid of political prisoners. That is the best measure of his achievement.

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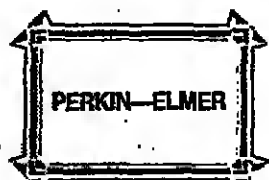
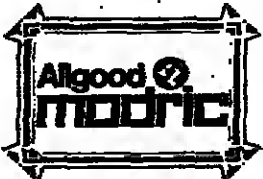
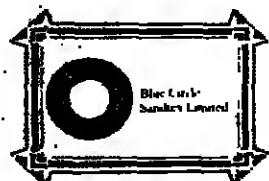
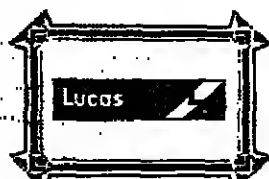
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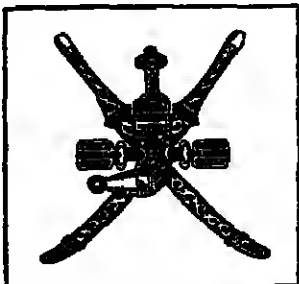
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Muscat's decision to establish diplomatic relations with the Soviet Union marks a profound change in its foreign policy, says Roger Matthews.

OMAN REVERSED a basic assumption about strategic planning in the Gulf when, at the end of September, it revealed it was to establish diplomatic relations with the Soviet Union.

Until that moment Oman had contributed strongly to the belief that it was the most adamantly anti-Soviet nation in the region.

In an interview at the end of 1982 Mr. Yousef al-Ahawi, the Minister of State for Foreign Affairs, had argued forcibly that there was no cause for Soviet involvement in the area and no reason for financial or trade links with Moscow. "There is, quite simply, no need to open the doors to them," he said.

It can only have been a little more than a year after that interview that Oman underwent a profound change of mind. From towards the end of 1983 Oman began to respond through a third party, presumably Britain, to the discreet feelers put out by the Soviet Union.

The Omani decision appears to rest on twin assumptions. The first is that Moscow will ensure that the neighbouring People's Democratic Republic of Yemen (PDRY), with whom it has a treaty of friendship and co-operation, never resumes its propaganda campaign against Oman, and abandons all attempts to create dissent in the southern Dhofar region.

When Omani officials say that the Soviet Union is pledged to follow a policy of non-interference in Omani affairs, they are referring to South Yemen as much as to any more direct Soviet action.

Second, the decision appears to reflect a changed view by the Omanis of the Gulf and its own self-confidence in handling regional issues.

Over the past 15 years Oman has built up military forces. Omanis currently study in Britain, while 7,000 Omani visitors visited Britain last year. Early Omani-British ties were rooted firmly in self-interest: from the 17th century on, Britain saw Oman as a strategically important trading and staging post, first for the Far East in general then for the preservation of its empire in India (from where the Muscat residency was administered until 1947). And most recently as a key to stability in a vital oil-producing region of the world.

For Oman, too, the relationship was important historically, offering protection and for the more astute of the territories' leaders, the ability to play off European rivals — particularly France, Portugal and Britain — against each other.

An element of such tactics remains today, as Oman on occasion subtly highlights its relationship with Britain to keep a public distance from the United States.

Oman has never been a British colony, though it came very close to a colonial relation-



Sultan Qaboos with the Queen during a State visit to Britain. Oman's traditional links with Britain have become part of a greater self-confidence in regional and international affairs

Co-operation Council. Oman believes that it can both deter, or if necessary defend for long enough to enable international support to be mobilised.

Essentially that means the US, and Sultan Qaboos is at pains to stress that the Soviet decision in no way affects Oman's traditional friendships. The US will continue to enjoy facilities at Omani bases and there is no indication that Muscat will not participate in future joint manoeuvres with elements of the American Rapid Deployment Force.

Oman's action is nonetheless a considerable coup for the Soviet Union, which has diplomatic links only with Kuwait among the GCC members. Now that Oman has taken the plunge, it can be safely anticipated that others will follow,

with perhaps the United Arab Emirates leading the way and Saudi Arabia not very far behind.

But for some time it seems that the actual benefit to Moscow will be more theoretical than real. Sultan Qaboos is adamant that there will not be "lots of Russians swarming all over the place" which could indicate that it will be some time before a Soviet ambassador is actually resident.

Pressure

Western diplomats expect Oman to come under increasing Soviet pressure to ditch the agreement quickly and grant facilities for trade missions and air and maritime links. This the Omanis will certainly resist, at least until they acquire further evidence that Moscow

is playing what they would describe as a helpful role in the region.

A great deal of Omani attention, like that of its GCC colleagues, is still taken up by the neighbouring war between Iran and Iraq. While it is officially stated in Muscat that neither superpower has the capacity to impose a settlement to the conflict, there is a strong appreciation that the Soviet Union, as the major arms supplier to Iraq and with a very long border with Iran, has potentially a far greater influence.

As the war has entered its sixth year, Oman has been caught in two minds over the wisdom of Iraq's attempt to destroy Iran's main oil export terminal at Kharg Island. It can understand the Iraqi frustration

at Iran's unwillingness to contemplate a negotiated settlement, but Oman is concerned at a possible broadening of the conflict if Tehran is backed too far into a corner.

Omani naval officers were impressed recently by the efficiency with which the Iranian Navy carried out manoeuvres in the Strait of Hormuz, which was interpreted as a signal of intentions should Tehran's oil exports be seriously curtailed. Oman has dropped suggestions prevalent a few years ago that it is in any way the "Guardian of Hormuz" but is very conscious that its greatest risk of being drawn into a conflict lies in the Strait.

It is in part reaction to this danger — and to the wider one resulting from the near collapse of the Arab League — that Oman has been an enthusiastic, if selective, member of the Gulf Co-operation Council.

Oman sees two clear benefits from the GCC. It is a forum through which the Gulf states can link to fight the threat of subversion and the possibility of external aggression. Second, it is a wealthy economic group which can offer assistance to Oman's development.

The GCC's priorities — that is, putting security first — now correspond to those of Oman, although businessmen in Muscat suspect they are having to bear the brunt of the political costs stemming from what they see as inequitable agreements on the phasing out of tariffs. However, Oman values its membership, especially a time when the role of the Arab world is in such total disarray.

Attempt

Oman is unlikely ever to be an important player in Arab politics, but does pride itself on the consistency it has shown, especially in support of Egypt's attempt to reach a negotiated settlement with Israel and now with the initiative launched by King Hussein of Jordan.

Sultan Qaboos, while wholeheartedly behind the Jordanian monarch, says that it is unrealistic for the Arab nations to expect a great deal of international backing while they are so divided among themselves. "If we have differences — which is quite healthy — then we should air them behind locked doors and not in the open," he said. "Of course we all have our personal interests but we have to learn to make sacrifices, not to be so selfish, and to think of our people as a whole. We cannot expect anyone else to do the job for us."

In the same context, Qaboos would also like to see the US doing more to encourage others and in particular to assist Israel "in being more forthcoming."

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Discreet relationship with the UK

Britain's close ties with Oman extend from politics into the commercial and military fields, creating "an emotional bond that is hard to break," Bridget Bloom reports.

"THE RELATIONSHIP between Oman and Britain is broad, deep and rooted in history. Furthermore, and this is rare in contacts between nations, it is remarkably free from friction: the two peoples, since they first encountered each other, have almost always been friends."

So declared Mr. Duncan Slater, Britain's Ambassador to Oman, only a few months ago. He proudly pointed out that he was one of a long line of British representatives resident in Muscat since 1800, when a Treaty of friendship established that Britain would always be represented there by an "English gentleman of respectability" so that "the friendship of the two states may remain unshook till the end of time, and till the Sun and Moon have finished their revolving career."

Mr. Michael Heseltine, Britain's Defence Secretary, who visited Oman last month, would certainly agree with the Ambassador's general sentiments. After his four-day trip, his officials were able to report that the visit had gone exceptionally well since there were "no issues of any kind to be resolved."

Understandable

This self-congratulation on the Defence Ministry's part may be understandable: Oman had just announced that it would buy eight new Tornado fighter-bombers, the aircraft's first export sale, thus cementing the relationship which makes Britain Oman's premier supplier of military equipment, and (despite the country's tiny population) its fourth-largest market in the Middle East, with exports last year worth \$390m.

Britain vies with Japan as Oman's number one supplier, but with no one for the influence of its 5,000-6,000 citizens — a total of 11,000 British nationals are working in Oman, in the armed forces, in business, teaching, medicine and the administration. The traffic is to some

extent two-way: about 600 Omanis currently study in Britain, while 7,000 Omani visitors visited Britain last year.

Early Omani-British ties were rooted firmly in self-interest: from the 17th century on, Britain saw Oman as a strategically important trading and staging post, first for the Far East in general then for the preservation of its empire in India (from where the Muscat residency was administered until 1947). And most recently as a key to stability in a vital oil-producing region of the world.

For Oman, too, the relationship was important historically, offering protection and for the more astute of the territories' leaders, the ability to play off European rivals — particularly France, Portugal and Britain — against each other.

An element of such tactics remains today, as Oman on occasion subtly highlights its relationship with Britain to keep a public distance from the United States.

Oman has never been a British colony, though it came very close to a colonial relation-

ship in the 1920s. Modern military ties were established during the Second World War, when the RAF and BOAC (as well as the U.S. Army and Air Force) used the country's airfields in return for financial subsidies.

In 1958, Britain agreed to provide military assistance to Oman, including financing, material and personnel towards the creation of the Sultan's Armed Forces.

The importance of that aid was underlined in 1970 when British forces helped Sultan Qaboos not only to come to power but to subdue the Dhofar rebellion, thus enabling the new ruler to consolidate his position over the whole country.

The development of Oman's modern armed forces from that time is described elsewhere in this survey. Today, the bond forged then is still strong.

"Blood, sweat and tears we shed together in those days," says one of the British officers involved in the Dhofar campaign who now holds a very senior position in the Sultan's armed forces. "That created an emotional bond that is dif-

ficult to break."

Sultan Qaboos himself, educated in the UK and trained at Sandhurst (where there is a plaque commemorating the 35 British soldiers who died in Dhofar) may well share the British officer's sentiments. The relationship with Britain is discreetly handled; publicity is shunned and denial made of favours asked or granted. Yet there can be no doubt, where other things are equal, Britain has the edge on most other (especially Western) countries.

Scrutinised

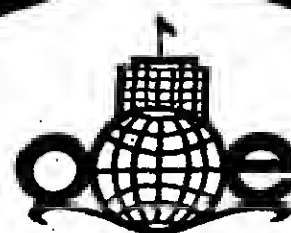
The story is told, for example, of the contract for armoured vehicles for the Army. A British and a French bid were received, scrutinised and found to be technically and financially on a par. Britain got the contract, partly on the grounds that the Sultan believes the Army can be more efficient if most of its equipment comes from a single supplier but partly it is suspected, from the cruder and more normal experience of international relations,

that of construction, banking, insurance and other financial and consultancy services in Oman, it is not so complete, is still substantial. Only in supplying private cars does Britain seem to be totally eclipsed by rivals.

What of the future? Britain has benefited from the boom of the past few years, and as that tails off so British economic involvement will decline, if not necessarily dramatically.

Britain's relations with Oman's military forces will become less close as more Omanis are trained to take the places of British personnel now serving there. While, politically, both sides acknowledge that there have been marked changes in the relationship over the past 15 years as Oman has become more open towards the rest of the world, and that that process too will continue.

For the time being, for Britain at least, a relationship which involves so few stresses and such obvious advantage provides a welcome respite from the cruder and more normal experience of international relations.



QAIS OMANI ESTABLISHMENT

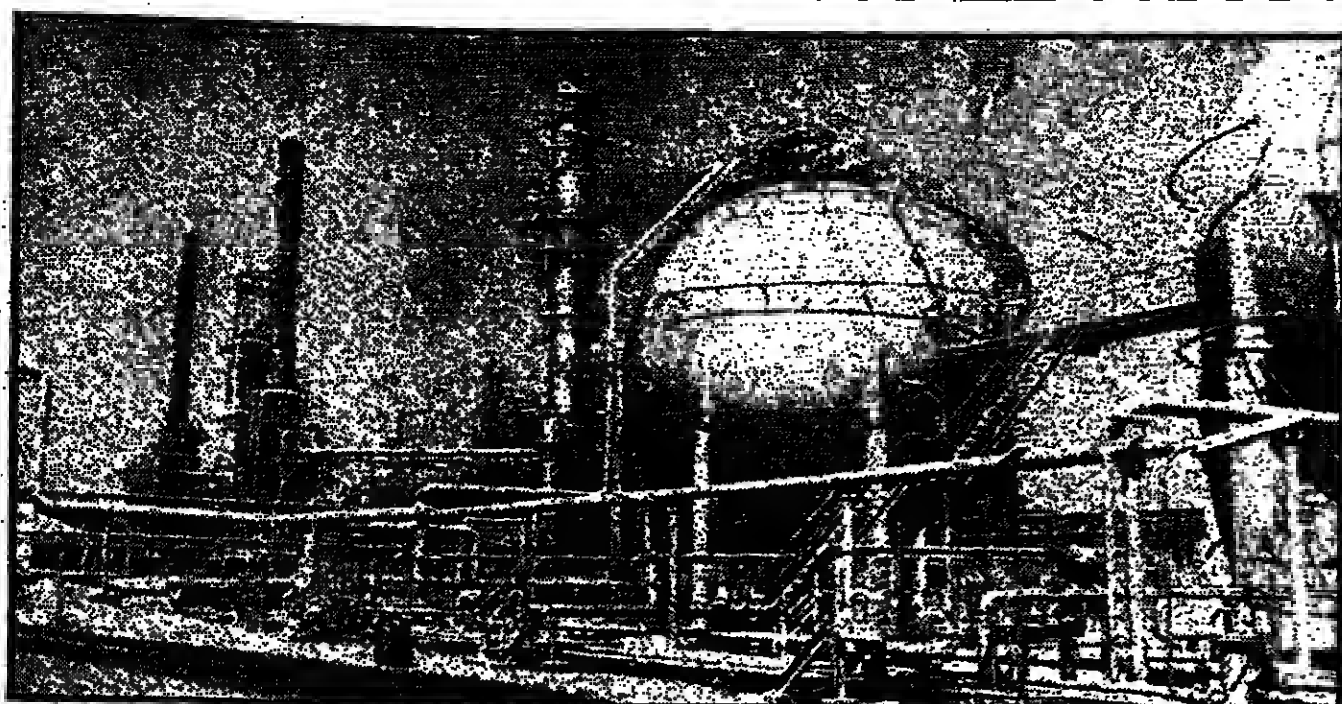
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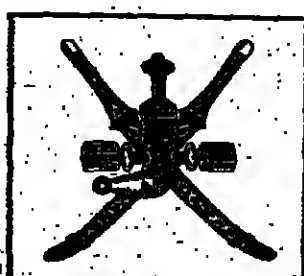
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Oman's refinery at Mina al-Fahal. The decision to adopt a flexible pricing formula has been vital

Production steadily rising



Exploration and production are still increasing as deliberate policy. However, this could raise political problems with Oman's Gulf partners, as Andrew Gowers reports.

IN OIL, as in many other things, Oman is a maverick of the Middle East.

Oman is not a member of Opec. Unlike most Gulf countries, it has quietly been boosting production, sales and oil revenue this year. And, unusually for an oil-producing country in this area of glutted markets, it is forging full steam ahead with exploration and development.

The Sultanate's crude production has been rising steadily since world market prices started to decline in the early 1980s—the result of a deliberate policy decision to try to maintain revenues at a level sufficient to satisfy the voracious spending appetite of the second five-year development plan.

Output averaged 412,900 barrels a day last year, some 7 per cent above the 1983 level, and earned the country about RO 1.3bn (\$4m). This year, both output and revenues are up again—at an estimated average of 488,100 b/d and RO 1.44bn respectively for the year as a whole.

And in the past few weeks Oman's oil industry has been close to another milestone of considerable psychological importance: production of half a million b/d.

That, as one former oil industry executive in Oman

put it, is a level which "few would have believed possible a decade ago." It takes the country a decisive step further towards the big league of oil producers.

By the same token, it may also lead to political ructions with Oman's partners in the Gulf Co-operation Council (GCC), most of which have been forced to sit by helplessly as falling oil prices and sales have sliced into their development plans.

For the moment, however, there appears to be no stopping the Sultanate. The next production target may be approached in 1986, when a newly-overhauled and extended pipeline network to carry oil from the fields in the south of the country to its export terminal at Mina al-Fahal in the capital area, is expected to become fully operational.

This will have pumping capacity of 650,000 b/d and, according to Mr Said Bin Ahmad Al Shamsi, the Oil Minister, could be raised eventually to 1m b/d.

Moreover, Oman appears not to have had much trouble this year in selling all it could produce, an achievement which stands in particularly stark contrast to the performance of Saudi Arabia, whose Arabian Light has a similar gravity (34 degrees API) to the Omani product.

Savings

One key to the Sultanate's success lies in its location, outside the treacherous Strait of Hormuz and the Gulf War zone. "The savings on tanker insurance charges which can be made by not having to go beyond the Strait are enormous," says one foreign observer.

But equally important this year has been Oman's decision to adopt a flexible pricing formula for its oil. This followed difficulties in making contract sales under its previous posted price system.

Virtually all the Sultanate's crude is sold under 12-month contract, but with a price mechanism that moves by the month to reflect spot market quotations retrospectively.

Key oil figures

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|--|-------|-------|-------|-------|-------|--------|
| Production (m annual) | 182.7 | 119.9 | 122.8 | 141.9 | 152.4 | 176* |
| Exports (m annual) | 162.0 | 120.0 | 118.3 | 128.6 | 135.0 | n.a. |
| Gross Government oil revenue (ROm)* | \$22 | 1,126 | 1,057 | 1,108 | 1,128 | 1,226* |
| PDO expenditure (ROm) | 185.6 | 283.7 | 265.5 | 246.7 | 244.2 | n.a. |
| Unit production cost (US\$ per barrel) | 4.81 | 5.04 | 5.73 | 5.14 | 4.89 | n.a. |
| Reserves (bn barrels) | — | — | — | — | 2.54 | — |

* Estimates. * After 15 per cent allocation to State General Reserve Fund. Source: Ministry of Petroleum and Minerals, Petroleum Development Oman, and Central Bank.

This clearly appeals to two countries in particular, both Far Eastern and both acutely sensitive to the need for secure supplies of a whole range of raw materials.

Japan, which has also been a big buyer of Iranian oil, and South Korea, are both lifting increasing amounts of oil from Oman. Last year, Japan took more than 60 per cent of the country's total exports, while South Korea bought a further 16 per cent. Tokyo, of course, is also the biggest exporter to Oman, but as far as the free-trading Omanis themselves are concerned, that is pure coincidence.

For the time being, the exploration picture looks similarly and surprisingly bright. Petroleum Development Oman, the Government's joint venture with Shell (34 per cent), Compagnie Francaise des Petroles (4 per cent) and Parlex (2 per cent), which produces the vast majority of Omani oil, has been maintaining a high level of capital expenditure, although it has dropped somewhat since its peak in 1982.

Over the past six years, PDO has discovered oil reserves well in excess of the amount it has extracted. According to Mr Al Shamsi, oil finds have totalled 32bn barrels this year against estimated output of 170m barrels, and the country's reserves are now close to 4bn barrels.

The focus of recent discoveries, and the key to the latest upturn in Oman's oil fortunes, has been in the south of the country, around Marmul. According to Mr Francis Hughes, a former PDO general manager now working as an independent consultant, the new complex of fields there, together with fields near Rima and Jalmud to the north, now produce more than 100,000 b/d.

The older Fahud, Lekhwah, Yibal and Nathi fields are producing about 250,000 b/d, while a further 50,000 b/d comes from the group of central oilfields around Ghuba and Qarn Alam.

The only other companies extracting oil in Oman at present are Elf Aquitaine and Occidental, which together produce about 15,000 b/d. But some 30 others, from Japan, Britain, the US and Sweden, are looking for oil, both offshore and on. And Mr Al Shamsi reckons that one of them, Amoco, which has exploration concessions for a total of 70,000 sq km, could be producing as early as next year.

Water injection

In addition to scouring the Sultanate for new oil, PDO is endeavouring to boost output from existing wells by means of secondary or enhanced recovery, either by water injection as in older fields or through more sophisticated methods such as are currently being tested out at Marmul.

For secondary recovery Oman's gas plays a key role. The Sultanate already has sizeable proven reserves of both associated and non-associated gas—more than 82 trillion (million million) cubic feet, according to last year's estimates. Last year, PDO launched a major additional search for non-associated gas in its concession area.

Gas is also an increasingly important source of industrial power generation, fuelling cement plants, the Solar copper smelter and the al Ghubra power station and desalination complex, among other things, via a growing pipeline network. This is leading to substantial savings of fuel oil.

Several further energy-related projects are either

being implemented or under discussion.

The Sultanate's only oil refinery, making petroleum products at Mina al-Fahal for the small but rapidly growing domestic market, is being improved to raise its capacity from the present 50,000 b/d to about 80,000 b/d by 1987.

There is even talk of a second domestically-oriented refinery financed by the GCC—possibly to be based near Barka, and perhaps incorporating cracking facilities to process the residual products which Oman presently has to export for poor returns.

Most ambitious of all is the long-discussed idea for a pipeline to southern Oman from Saudi Arabia, possibly combined with an export refinery near Salalah. This proposal first came up in the early 1980s, when GCC countries were anxiously looking for ways of bypassing the Strait of Hormuz with their oil exports, and has been enthusiastically canvassed by the Omanis ever since.

Shelved

The idea has been raised again in the past few weeks among GCC ministers, but no more has been heard of it, so it probably can be considered shelved for now.

For the longer term, two crucial questions remain about the Sultanate's oil industry. First, for how long will the other GCC countries tolerate the inexorably rising trend in Oman's production as they do battle in Opec to raise their revenues from oil? Mr Al Shamsi is adamant: Oman is different from other Gulf states; it is poorer and it needs as much oil money as it can get to finance infrastructural development which its Gulf allies have already completed.

"If development slows down or stops, the Omani citizen will be putting critical questions because he sees his neighbours in good shape," he says. However, other GCC states might not agree that they are in particularly good shape. And the customary Omani argument, that it is only a small producer and therefore not worthy of the critical attention of its peers, is beginning to wear a bit thin.

Second, can the country keep up a level of exploration and development capable of finding replacement oil for higher levels of extraction, particularly at a time of falling oil prices?

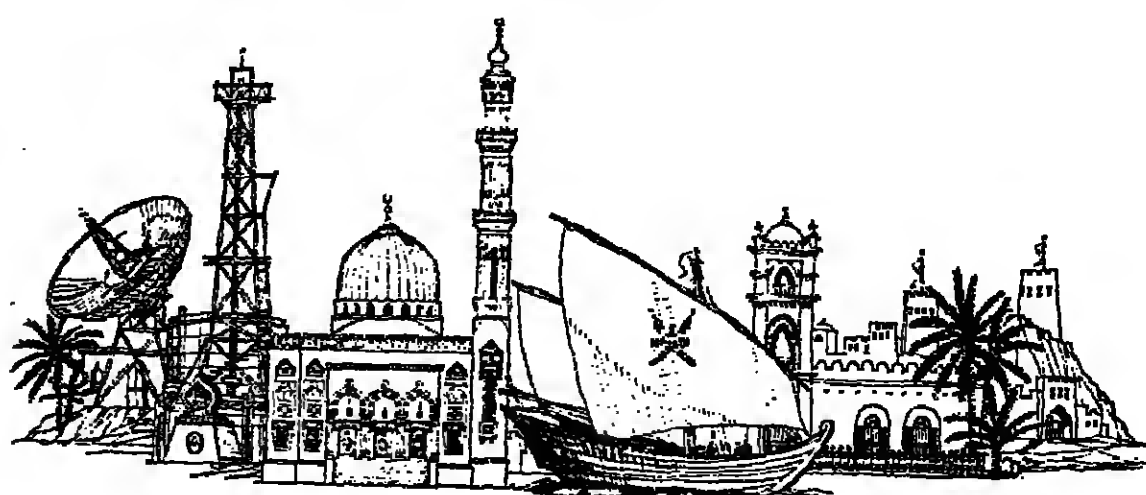
As Mr Hughes says: "Oman's fields are many but the average production from each field is small by Middle East standards and often difficult and expensive to produce."

In particular, the fields in the south have to be pumped, while Elf's Sahmah field and Occidental's recent discovery further north would not have been viable except for the proximity of PDO facilities to transport and export the oil.

The present level of reserves, it should be remembered, is enough for the next 25 years or so even at present levels of production—not alone at a dramatically increased extraction rate.

There are murmurings of discontent, too, from some foreign oil companies at PDO's apparent reluctance to relinquish land lying idle to other potential explorers.

But the gravity of these complaints should not be exaggerated. After all, the prophets of doom have been busy enough in Oman's oil industry since it exported its first barrel in 1967. Twice in the 1970s oil prices were being prepared for Oman as an oil state as its production declined. Both times the pessimists were resoundingly proved wrong.



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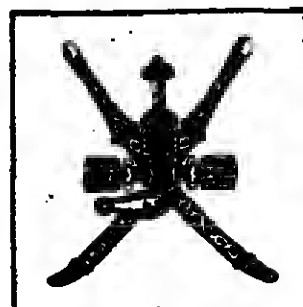
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OMAN 6

Big budget for forces



The country faces no obvious threat but, as Bridget Bloom shows, Oman has carefully built up efficient, well-equipped forces, with a programme of co-operation with Britain and the US.

HIGH IN the hills above Salalah, capital of Oman's Dhofar region, are scattered more than 60 special army camps. Most of the soldiers there are middle-aged, and though they carry rifles and have ready access to ammunition they wear no uniforms. Yet these men, known as the *firqat*, once wielded their weapons against the state. Tough fighters with proud records, their switch of allegiance to Sultan Qaboos in the early 1970s was probably the most critical factor in the new regime's early consolidation of power.

The *firqat*, 3,500 strong, today constitute the reserves for Oman's 17,000-strong army. They have little enough to do since the Dhofar rebellion — caused principally by the neglect of the area under the present Sultan's father but fanned by the Communist-backed South Yemen — effectively ended in 1975.

According to Army headquarters in Muscat, there have been no incidents of any sort for several years.

Yet the old fighters are paid to guard their hilltops and there (in a region offering little formal employment) they will remain, both in recognition of their past contribution and as an insurance against possible trouble in the future.

Oman today, rather like the old *firqat*, finds itself at peace, but in terms of its defence it too looks back to the lessons of the past as well as forward to what the future might bring.

The country faces no obvious internal or external threat, but Oman enjoys such a strategic position in the Indian Ocean and the Gulf that it feels the need constantly to be on its guard.

One change in the geopolitical chessboard in this part of the world and our position could look very different, is how one senior officer put it.

Since 1975 Oman has built up comparatively large, balanced forces which are now well-equipped and well-trained. It has risked the opprobrium of its Arab neighbours by relying heavily on Britain, not only for help in subduing the rebellion and training and equipping its forces, but for the provision of many of its senior officers.

Modelled on SAS

They are to be found in all three services and in the Sultan's own Royal Guard Brigade and his special forces unit, modelled on Britain's renowned SAS. (Neither of these units comes under the regular Army command.)

Britain provides military assistance for a wide range of developing countries but the aid to Oman is unique in that some 200 British officers are on loan from the UK Defence Ministry and up to another 1,000 (the figures are not revealed) are on direct contract. They are all integrated into the command structures of the forces — which is where they would remain if Oman found itself at war.

The best British officers say their aim is to work themselves into Oman's army, a process which has proved much faster in the comparatively low technology Army than in the Air Force or Navy. The problems of the Omanisation process are compounded because talented officers, such as jet pilots, become appointed to staff and command positions, while maintenance of much of the forces' equipment seems likely to remain in expatriate hands for the foreseeable future.

Airwork, the ITC company, currently has about 1,000 expatriates doing such work, mainly with the Air Force.

Oman spends an exceptionally high proportion of its budget on defence — estimated at 43 per cent for 1984-85. It is reckoned that recurrent costs to pay the armed forces, and to maintain the new barracks and equipment will absorb 70 per cent of the budget between 1986-1990, leaving only 17 per cent for equipment purchases.

Of the three forces, the Army is the oldest, highest and has the largest proportion of Omani officers, including now the Commander of Land Forces (The Chief of Defence Staff and head of the Air Force and Navy are all British).

The Army's total strength, including the Royal Brigade and the special force (but not the *firqat* reserves) is estimated at 17,000. Now highly skilled in anti-terrorist warfare, the Army has broadened its capabilities in the last ten years. It has eight infantry battalions as well as reconnaissance, signals, artillery, parachute and armoured regiments.

It currently has 27 British Chintheim and six US M60 tanks as well as British Scorpion armoured vehicles, Milan anti-tank weapons and Blowpipe surface-to-air missiles.

The 3,500-strong Air Force operates about 100 aircraft in a wide variety of roles, with *Jaguar* fighters bought from Britain and a squadron of Hunters which were a gift from Jordan.

The Air Force will experience a major boost to its capability with the arrival from 1988 of eight air defence versions of the tri-national Tornado fighter bomber. The sale of the aircraft from Britain, at a price in "excess of £250m," was announced by British Aerospace last month.

The precise operational role of the Omani Tornado is unclear: the aircraft is built for

long-range interception and air defence in all weathers and is to be deployed by Britain primarily for the Defence of Nato's northern flank.

It is understood that to buy the Tornado Oman has negotiated favourable terms with Britain, including lower than normal interest rates and repayment phased over at least ten years.

Fast attack

Oman's Navy, the least "Omanised" of the three services, has a strength of 2,000 (not including the Royal Yacht, Oman's largest ship). The service operates fast attack and patrol craft, and has recently taken delivery of the first of two logistic landing ships from Brooke Marine of the UK.

A new £350m naval base is being built at Wudum to replace the existing base at Muscat. The Navy's main operational task is currently patrolling the traffic separation scheme for vessels using the Strait of Hormuz, where Oman's territorial waters meet those of Iran at the Strait's narrowest point.

However, senior officers in Oman are at pains to correct suggestions that Oman sees itself as the "guardian" of the Strait, partly because it is obvious that its small efficient force could not of itself guarantee freedom of navigation there, and partly because the country is determined to maintain its present "strictly neutral stance" in the war between Iran and Iraq.

Relations with Iran are said to be correct, though as one officer put it, explaining the need to keep up the country's guard, Iran is unpredictable in the pursuit of its revolution.

Oman has a long and disputed border with Saudi Arabia, although for as long as the two states remain members of the Gulf Co-operation Council, with the implications for co-operation on security between the

six states, that issue is likely to remain dormant.

Tensions between Oman and its southern neighbour, the People's Democratic Republic of Yemen, are said to have eased with the establishment of diplomatic relations, a state of affairs which Oman hopes will be reinforced following the Sultanate's decision to open diplomatic relations with Moscow last month.

However, much as Oman maintains its neutrality towards the relatively low-key conflicts of the region and publicly plays down its links with the West, it is clear where its present government's loyalties would lie in the event of major East-West confrontation.

In 1980 Oman signed the so-called Access Agreement with the US which allows Washington to use the three key Oman air bases of Tumbait in the south, the island of Masirah, and Seeb near the capital, in negotiations just concluded the US has been given permission to pre-position equipment, designed for use by its Rapid Deployment Force, at each of the bases.

Contracts for the maintenance of the facilities at each base have recently been let to Airwork in conjunction with the US company Vinnell. The facilities are what the US calls "bare base assets" which would enable troops to be fed, housed and given medical attention as well as to pick up pre-positioned ammunition, missiles and vehicles.

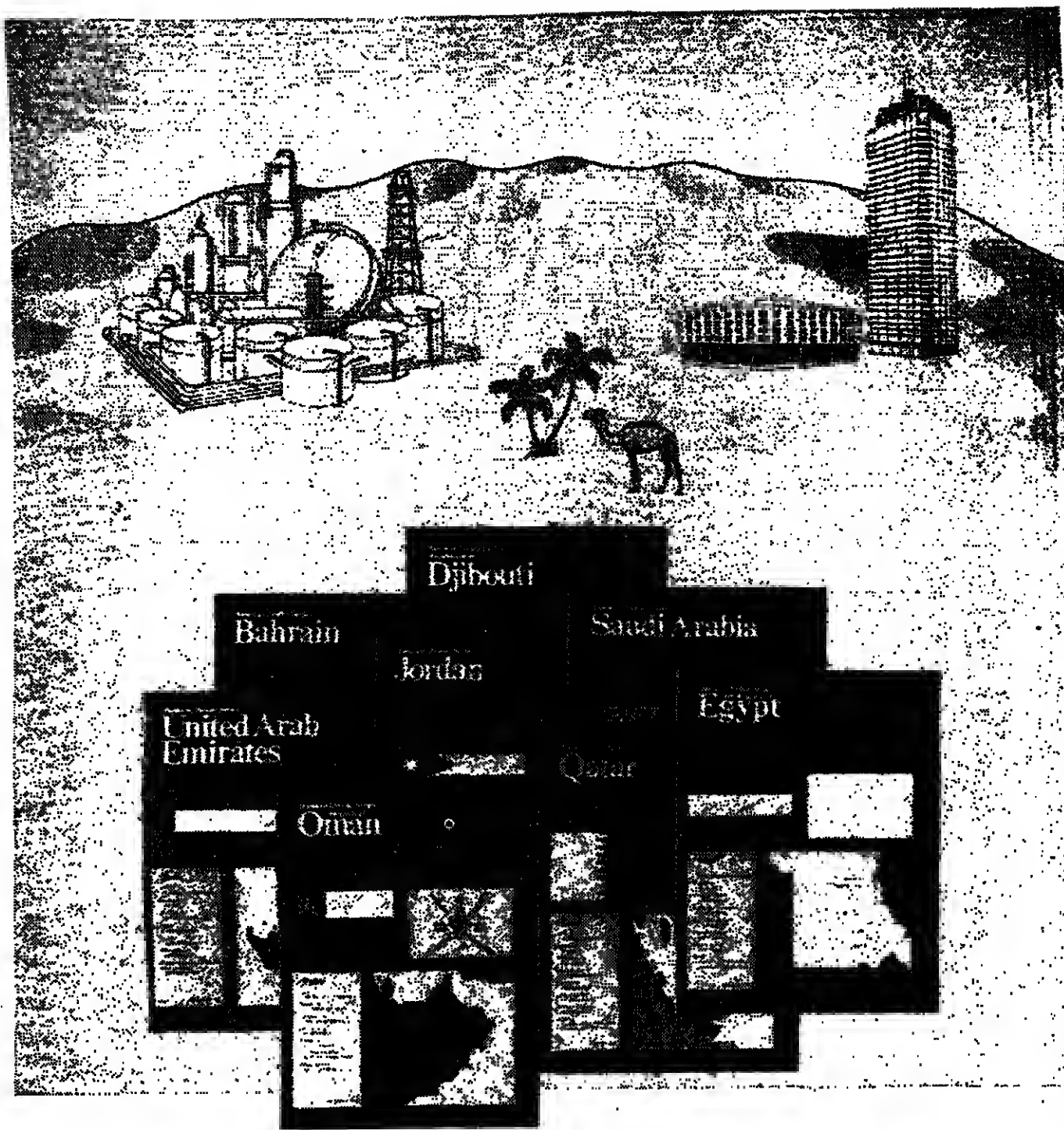
The US has so far spent some \$260m on these new facilities and expects to have concluded the pre-positioning of equipment by next year.

These agreements are part of a web of close if largely unpublicised defence relations between US and British and Omani forces, ranging from the use by the Western countries of Omani firing and exercise ranges, to fleet refuelling and joint exercises.



The Tornado multi-role combat aircraft, ordered by Oman from British Aerospace. The eight new aircraft, to be delivered from 1988, will markedly boost the capability of the Sultanate's Air Force.

Army recruits in training. The Army has eight infantry battalions and a total estimated strength of 17,000



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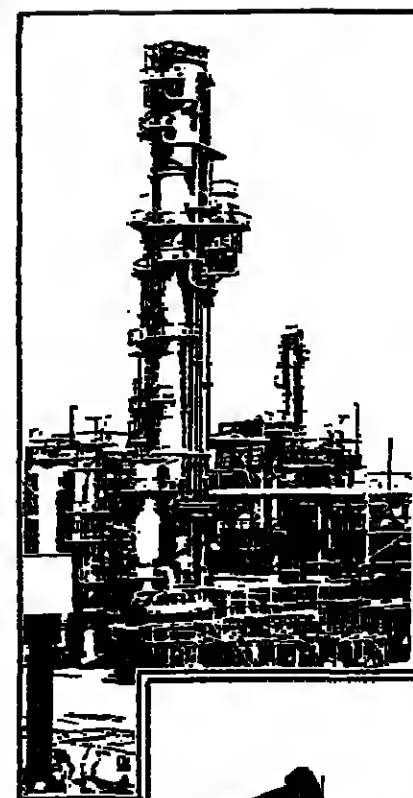
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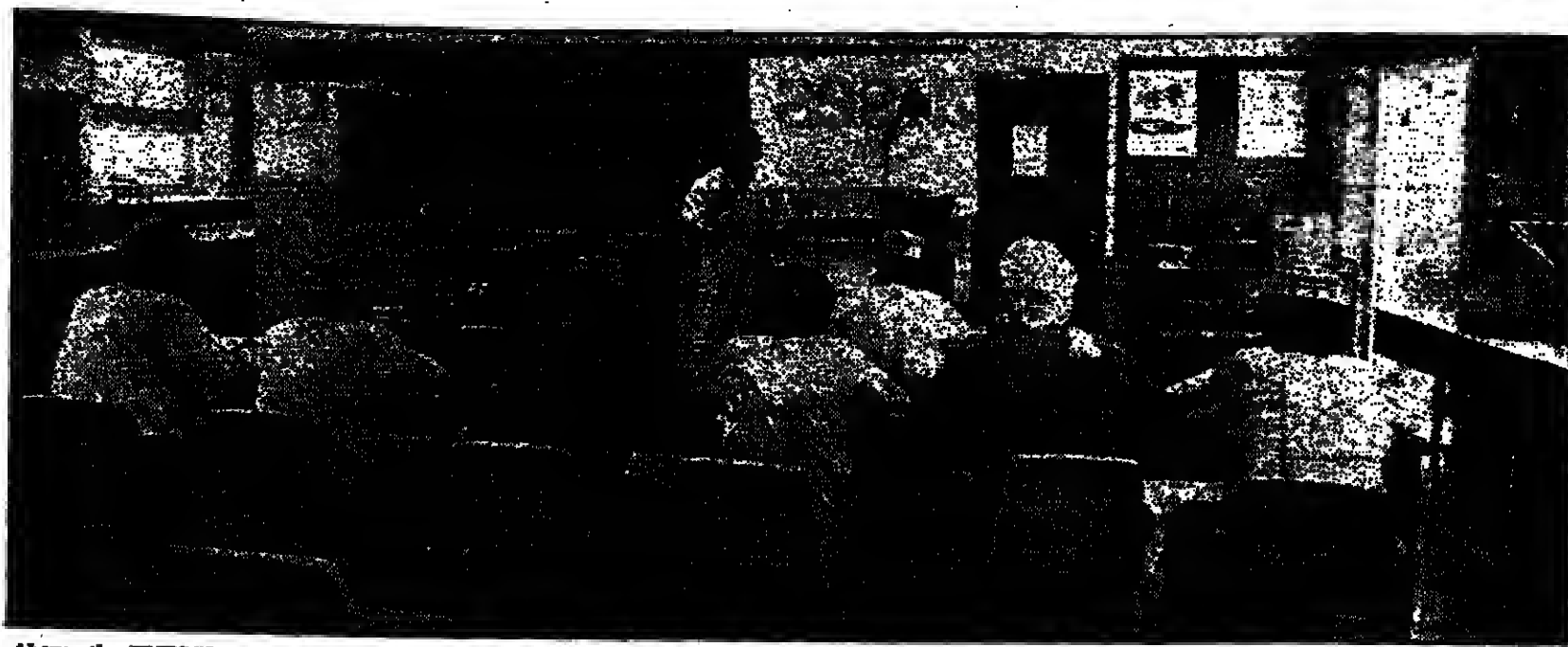
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Above: the UNESCO-aided agriculture school at Nizwa and (right) the falaj system of irrigation at Biyaq. The goal of self-sufficiency in foodstuffs has become increasingly elusive



Research fails to raise efficiency

AGRICULTURE, backbone of the Oman's economy before the advent of oil, is now the Cinderella of the Sultanate's development.

Although the Government has long been full of brave words about self-sufficiency in various foodstuffs, that goal has come to seem increasingly elusive, even illusory. It is difficult to find an optimist who will tell you that many of the fundamental problems of the sector have even begun to be tackled.

The figures speak for themselves. Of Oman's total land area of about 300,000 sq km, only 0.1 per cent is estimated to be under cultivation. Meanwhile, food imports have been rising steadily over the years, diminishing the incentives for local production still further.

To be fair, farmers in Oman have to contend with an unusually harsh environment: arid to the point where rain-fed agriculture is an impossibility, and largely infertile. And the Government has been spending considerable amounts of money trying to improve conditions—restoring battered falajs (the ancient, supposedly Persian-invented, irrigation systems which feed the upland villages with water from underground springs), providing subsidised loans for the purchase of farm equipment, and so on.

Oman has undoubtedly come a long way from the days before

1970, when every single imported tractor had to be personally sanctioned by the Sultan.

Further, the amount of land under cultivation is said to be creeping upwards year by year. But what worries agriculturalists working in the Sultanate is that there is not much sign of an improvement in the overall efficiency of that cultivation.

And there are still many hectares of land lying idle even on the relatively fertile northern coastal plain, the Batinah, its owners, mostly hobby landlords from the city, simply find it too much trouble, or too expensive, to farm.

That is a far cry from the vision of one resident in Oman 20 years ago, who wrote: "There is no doubt that the Batinah is potentially a garden area of great wealth; it has a market that could stretch from Muscat to Kuwait, water enough, and proved capacity to produce."

The other two main categories of agricultural land in Oman—the falaj-fed villages in the mountains and wadis of the northern interior, and the grazing land of the Jebel Al-Qamar mountains in the south—have their own problems. These are availability of sufficient water and land in the former case, and over-grazing by cattle and camels in the second.

In all these cases, the innate reluctance of most farmers to



Andrew Gowers explains that, for several reasons, farming is becoming more difficult and only the few are able to make a profit.

change their ways has been compounded by the lack of financial incentive to do so. The net result is a heavy drain of younger people away from the land and into the cities, where the easier money is to be made. One third of Oman's population of just over 1m is now estimated to live in the capital area.

The relatively poor performance of agriculture becomes even more obvious when contrasted with the fairly healthy state of the Omani fishing industry, the Sultanate's other pre-oil staple. Fishermen have been kitted out with brand-new

Yamaha motor boats by the Government, and appear to be making a decent living supplying the high-priced markets of Muscat and other Gulf cities.

Fish remains Oman's largest single non-oil export, bringing in some OR 6.3m (\$2.2m) last year, according to Customs figures, and rivalled only by copper; it is also the fastest-growing non-oil export sector.

The principal stumbling-blocks for Omani agriculture include, first, the availability of water. Nobody knows just how much of a problem this is, though the Government is making strenuous efforts to find out through its recently-established Public Authority for Water Resources.

What is certain is that it has barely rained in the Sultanate for the last three years, water levels in the wells are steadily going down, and the springs which feed the mountain falajs are flowing ever more slowly. In addition, there are reports of growing salt water encroachment in wells on the coastal plain.

This may be only part of a normal "dry cycle," but officials are worried that more water is being pumped out of the ground during this drought than ever before.

Until 15 years ago, most of the country's water came from hand-dug wells, drawn out by animal power, and from the

falajs. But with the advent of drilled wells and mechanical pumps, the amount of water obtained has risen considerably, both for use on the land and in the towns.

"There is always the possibility that they are taking too much," says one expert. "We just don't know how much the decline in water levels will recover when the rain comes."

What is more, the increase in the volume of water lifted has not been accompanied by a corresponding increase in the efficiency with which it is used by farmers. "Indeed," says Dr Roderic Dutton, a leading expert on Omani agriculture at Britain's Durham University, "it is probable that water usage has become more inefficient simply because it is so easy to raise and distribute to the crops."

The second stumbling block is research and extension services. Experts say that an important key to improving Omani agriculture is selecting the right varieties of crop and persuading farmers that they could benefit financially from shifting to them.

This requires an applied research effort, backed up by efficient extension services to take the fruits of that research to the farmer.

Dr Dutton believes, for example, that there are at present too many acres under date

palm—still by far Oman's biggest agricultural crop, despite high production costs and weakening demand.

Critical

Many foreign agriculturalists are highly critical of the Government's research efforts so far. The research is too "pure," they say, and frequently not into the most useful subjects. The extension service is said to be dogged with bureaucratic delays in delivering subsidised seed and fertiliser. The same, incidentally, applies to the Omani Bank for Agriculture and Fisheries, the Government's soft-lending agency for farmers.

Third, there is marketing. This has been a severe problem for farmers in the past, partly because of the small size of the Omani market, and because of the short harvesting season for their crops—which has tended to mean that all farmers in a region have tried to sell their

produce at the same time, severely depressing prices.

The Government, through the Ministry of Commerce and Industry, is seeking to address this problem by creating a central body called the Public Authority for Marketing Agricultural Produce. This is due to come fully into operation in the next few months, and through its network of collection and distribution centres will buy food directly from farmers and get it to market.

It remains to be seen how much the farmers themselves make use of this system, given that it is apparently not going to be paying much more than the going market rate for their produce.

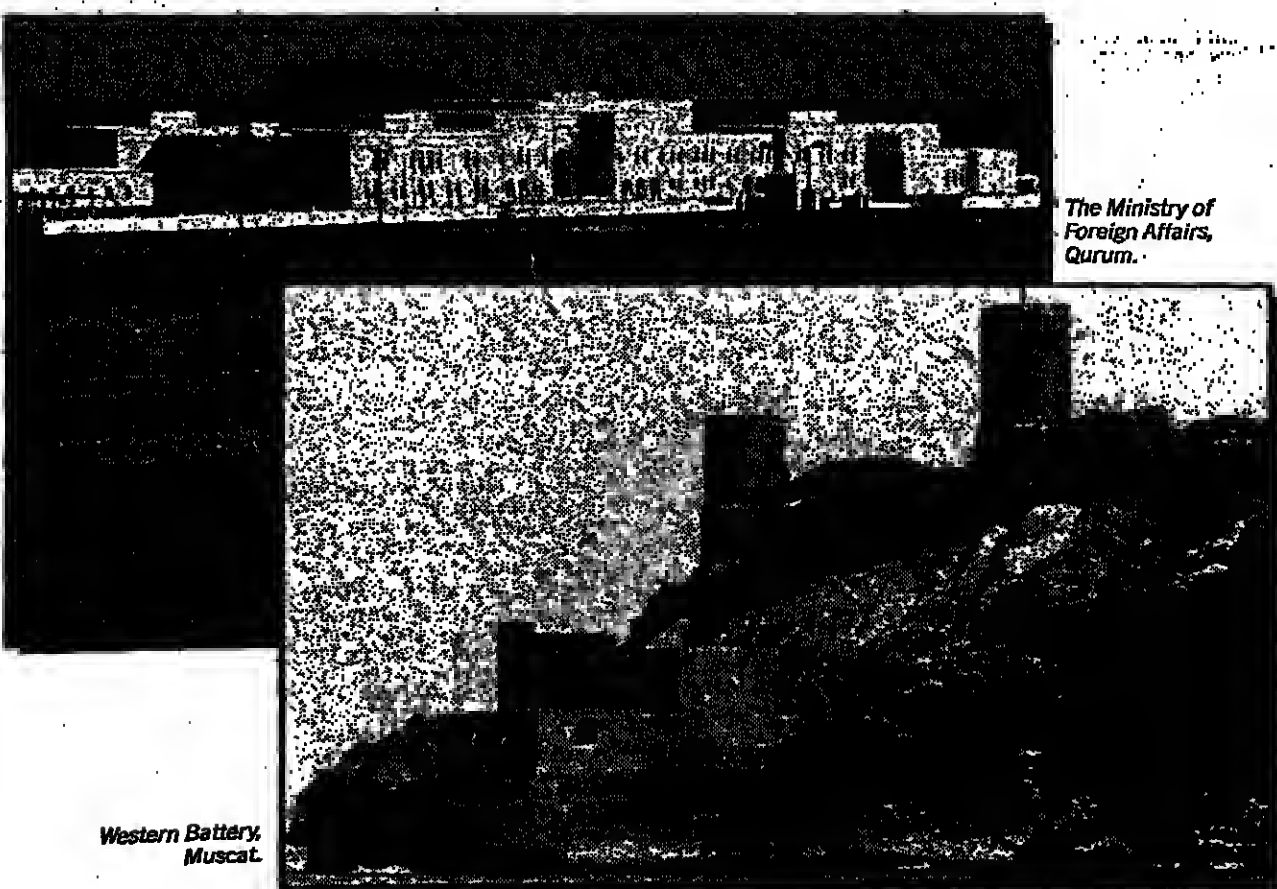
But for all the Government's activity in the sector, many experts remain convinced that the basic difficulty facing farming in the Sultanate is more deep-seated. As one agriculturalist put

it: "The worst problem for Omani agriculture is the same disease as has afflicted many developing countries—the pull of alternative lifestyles. Young people are losing interest in farming very rapidly; they want government jobs or army posts."

The money you can earn in farming just cannot compete with the salaries offered in the city. In addition, people are aware that they are going to lose money on their agricultural enterprises, so there is a limit to the amount they are going to want to invest."

There are some efficient high-technology farms just about making money in the Sultanate, such as Sun Farms run by a French manager near Sohar. But they are the exception.

And while the Government does nothing to improve the returns on farming and reduce the competition from cheap imports, they are likely to remain so.



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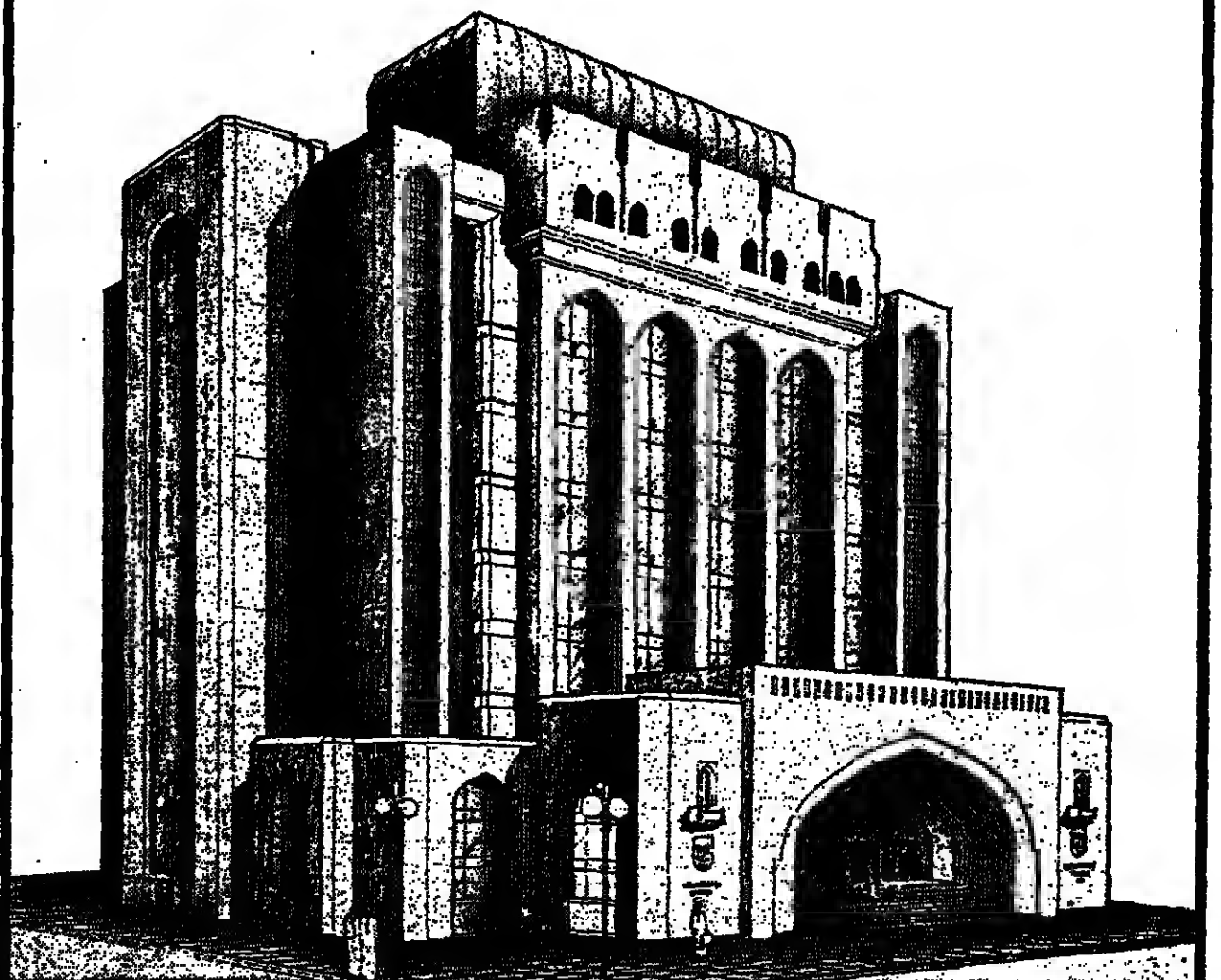
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Rapid expansion raises some problems

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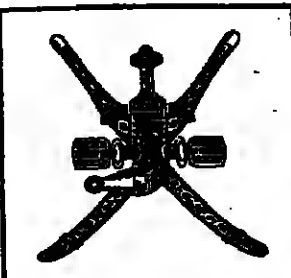
Just beginning to learn English after four years' basic primary schooling in Arabic, the girls are among the privileged 65,000 female children now at school in Oman.

Fifteen years ago no girls went to school in Oman and—outside the Koranic system—only 900 boys were receiving formal education in just three schools. Today, according to Yahya bin Mahfudh al Manthari, the Minister of Education, there are 235,000 students of all ages, and some 560 schools.

There has been an explosion in education since Sultan Qaboos came to power. No formal census has ever been held, so it is difficult to know precisely what percentage of school age children are actually at school.

Estimates suggest that 70-80 per cent of children of primary school age are at school in the main towns, with a lower rate in rural areas.

However, a much smaller percentage actually make it through the 12 years of formal education to take their national secondary school certificate, and so creating those who qualify for possible entry to the new Sultan Qaboos University. It is thought that the university will have about 3,000 students to choose from for its first courses next year. This is one of the problems now becoming evident in what



There has been a huge expansion of education since Sultan Qaboos came to power, with girls now at school and learning English as well as Arabic. Bridget Bloom describes the efforts to bring literacy and higher levels of schooling to the people.

is overall an education success story. Another is that the general level of education those 3,000 children have reached is not high enough, both in the science subjects to which the new university education will be particularly directed, as well as in English, one of the two languages of instruction.

The university's plans for a 12-month foundation course to give students a proper grounding in English and science is being extended to 18 months and possibly more. Omani students entering colleges or university in Britain, for

example, generally need two years' preparation.

A report published recently by the Ministry of Education suggests other problem areas, partly caused by the very rapid expansion in education, which the authorities will have to tackle over the next few years.

Its findings—disputed within the Ministry—show that many pupils who start their six-year course of primary education do not finish it. If they leave after only three years, as apparently about 30 per cent did in the sample referred to in the report, there are fears that they will revert to illiteracy.

There are also large numbers leaving at the preparatory and secondary levels (each three years). This is reported to be as high as 49 per cent—32 per cent dropping out and the rest failing.

The report also found that only about 25 per cent of those children who stayed in primary schools completed the course in the intended six years—most needed an extra year or two. And of those who left school altogether, far fewer than the government hoped continued learning in adult education centres—between 10 and 20 per cent, depending on the area.

Efforts are now being made to correct some of these problems—adult education is now provided more frequently at places of work rather than special centres, for example. The minister estimates that 17,000 teachers (nine men and 11 women) against 620 foreigners (a high proportion of them British).

A better-documented and



The Boys' Secondary School at Wattayah is the largest in Oman, with 900 pupils

more widely accepted problem is the education system's heavy reliance on expatriate teachers. Government figures for 1984-5 show 1,285 Omani teachers out of a total of 8,375.

Of this number, there were almost 1,180 Omani primary school teachers against 4,190 foreigners (primarily Egyptian, Jordanians, Sudanese and Tunisians). There were only 20 Omani secondary school teachers (nine men and 11 women) against 620 foreigners (a high proportion of them British).

There is also a disparity in

teaching between rural and urban areas, the latter proving more popular with teachers.

The Education Minister hopes that 45 per cent of all teachers will be Omani nationals at the end of the next five-year plan in 1990. The aim is to produce 2,000 teachers a year by the end of the century, or 80-85 per cent of the total requirement.

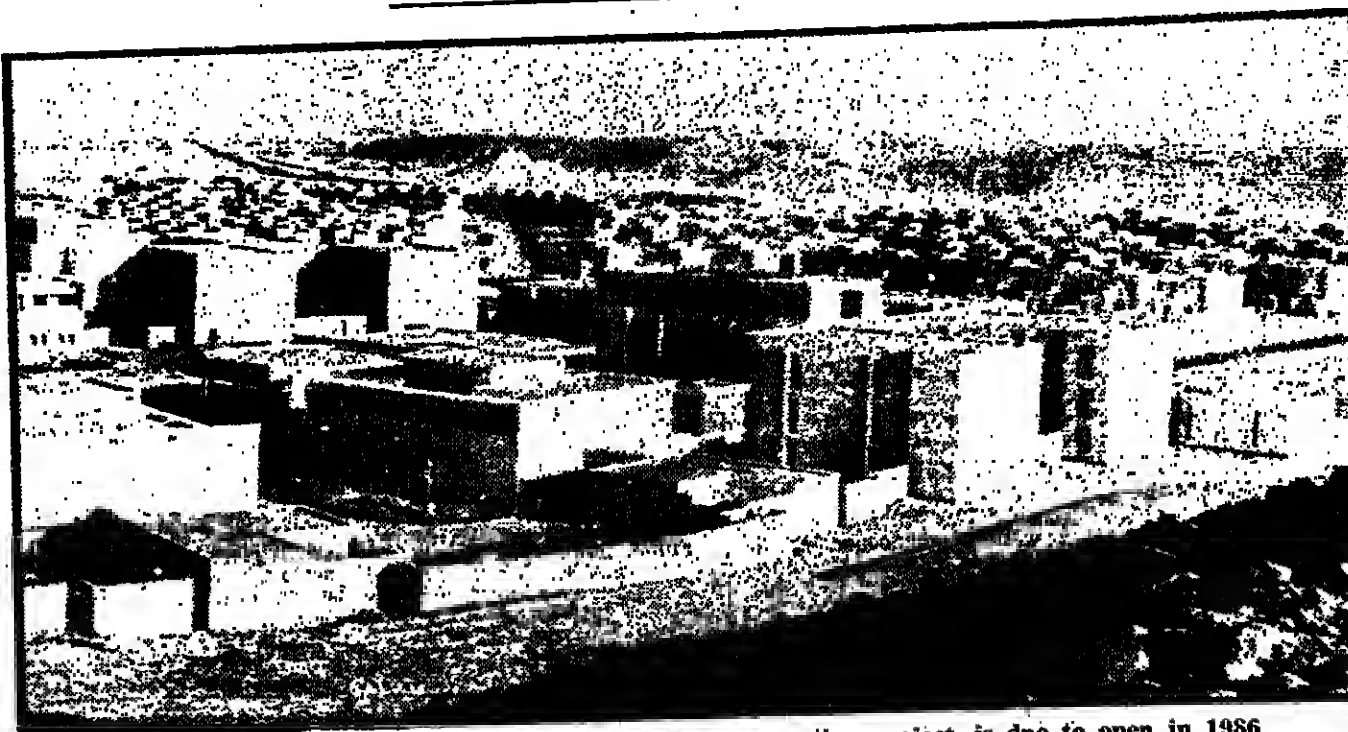
There are currently no Omani professors or senior lecturers, but the government says it is confident that a large proportion of the 3,000 students and 2,000 post-graduates currently at universities and colleges

abroad will return home to teach.

The government scholarship committee decides which students are given grants to study abroad and 20 per cent of these will be permitted to go into the private sector. More than 50 per cent of the post-graduates are earmarked for the university, according to the Minister.

* The internal efficiency of the Omani educational system: a study of the phenomenon of wastage. Ministry of Education and Youth Affairs. May 1983.

The new university



The Sultan Qaboos University, Oman's biggest construction project, is due to open in 1986

Pledge to set high standards

Oman's lavish new university opens next year. Personally supervised by Sultan Qaboos, it is intended to provide the best education and skills to suit the country's needs, says Bridget Bloom.

TWENTY KILOMETRES outside Muscat, a grey city is rising from the desert plain. It is the new Sultan Qaboos University, due to take its first students next year, costing nearly \$350m, and currently Oman's biggest construction project.

The university's concrete structures loom out of the shimmering heat and dust, soon to be beautified by trees grown in its own special nursery. Today the site's five big faculty buildings: the huge library, the lecture theatre, student and staff common rooms, laboratories, hospital and student and staff residences stand nearly complete.

The whole site is dominated by a mosque and welded together by colonnaded walkways on two levels. Like 20th-century cloisters, these are intended to provide separate access to the buildings for men and women. Rarely has a whole university been built with such speed and on such a lavish scale. Cementation, part of the British Trafalgar House group, won the original \$215m contract

in 1982. Since then inflation, changes to the specification, plus the addition of a teaching hospital (being built now partly because of the nature of the project's financing has given Oman a windfall dollar income) have boosted the price to an estimated \$343m today.

The deal is partly covered by the UK Export Credits Guarantee Department and involves the company in buying a large proportion of British equipment to both construct and furnish staff houses, student rooms, dining halls and lecture theatres.

An additional \$65m contract to supply and install all specialised trading equipment went to the Staffordshire company of Philip Hainz International.

Sultan Qaboos has taken a keen interest in the university. It is said that he has had a hand in designing the syllabus, while he carries out his own unannounced site visits from time to time on a Friday, leaving his staff telephone his instructions or observations to the company's management the next day.

Suggestions that the university might be too grandiose for a country of Oman's size are given short shrift by the authorities. The Sultan's aim is to provide Omanis with an education in keeping with their traditions and culture, as well as providing the skills which he feels the country needs.

Of the five faculties, the

biggest will be education and Islamic Sciences, with a maximum of 250 students a year; followed by engineering (100 students); science and agriculture (80 each); and medicine, which is intended to open with about 30 students, building up to a maximum of 70.

Sheik Amor Ali Amir, secretary-general of the university, is in overall charge in the run up to the planned opening next September, although there are about 20 lecturers and other non-Omani teaching staff already on the campus and more will arrive during the next few months.

Criticisms

According to Sheik Amor, detailed syllabuses will be worked out over the next year or two, since the first students will be on a foundation course designed to make sure their language and basic science education is of a high enough standard.

There are criticisms that the Omani educational system will not produce students sufficiently well grounded in either science or English, the main medium of instruction at least for the science-based courses. However, Sheik Amor is adamant that standards will be as high as at universities abroad, such as those in Britain. He accepts that this will probably mean an extension of the foundation course to 18 or more

months instead of the year planned.

It is not yet clear, he says, how many secondary school children will take the national school certificate in the coming year, from which the university students must be chosen, but he assumes the number will be about 3,000. The university will accept fewer students than the intended annual intake of 550 if sufficient qualified students are not forthcoming, he says.

It has not yet been decided whether foreign students will be admitted to the university, although for the first few years, virtually all members of staff are likely to be non-Omani.

Sheik Amor refutes suggestions that the recruitment of well-motivated staff is proving a problem. Certainly good terms of service are being offered, with a professional salary starting at about \$50,000 tax-free.

Tuition and board at the university will be free and Sheik Amor insists that the decision, on grounds of religion and culture, to provide separate facilities for men and women—apart from the walkways they will have separate access to lecture halls, where they will add to the running costs.

There are apparently no figures currently available for the overall recurring costs of the university, although it is clear that they must be substantial.

CEMENTATION INTERNATIONAL

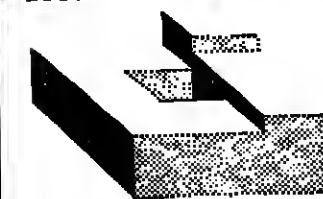
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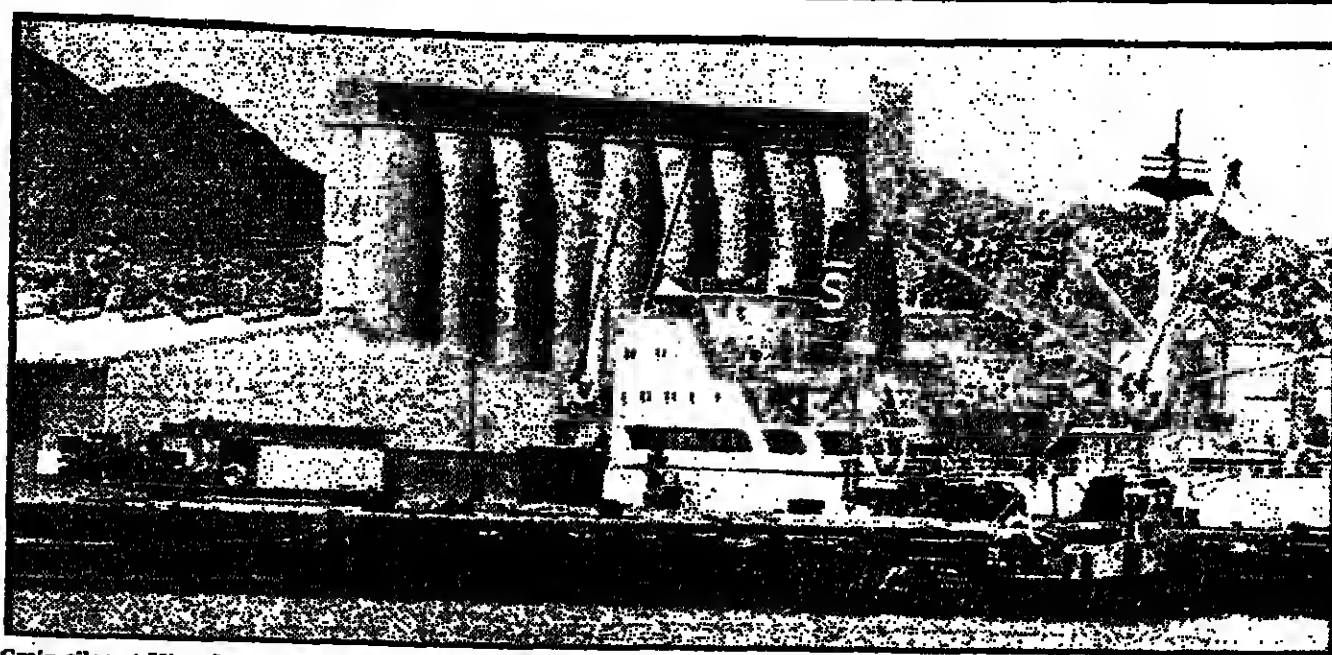
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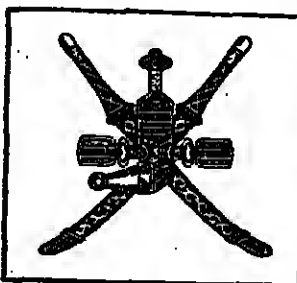
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Grain silos at Mina Qaboos, the country's largest port. All industry in Oman faces the problem of low demand created by the small population

Paying the price of unity



The country's small domestic market, and a flood of cheap imports, create a double disadvantage. The government has focused its efforts on encouraging businesses specialising in import substitution. Andrew Gowers reports.

AS OMAN tries to boost its industry against the day that the oil runs out, the country finds itself at a crippling double disadvantage.

The domestic market at the disposal of local manufacturers is desperately small, and second, they have been forced increasingly in recent years to compete with a flood of cheap imports, particularly from other member states of the Gulf Cooperation Council (GCC).

Industry has certainly grown in the Sultanate since the days before oil, when the country's manufacturing activity was confined to a few craft-based industries such as silverwork, weaving and the construction of sailing boats.

According to Mr Abdullah Lamki, adviser in the Ministry of Commerce and Industry, the amount of money contributed to the gross domestic product by manufacturing plants has risen more than 40-fold since 1975. But its share of total GDP

remains tiny, between 3 and 4 per cent according to figures produced by the Government's Development Council.

Oman's policymakers are all too well aware of the problems involved in getting industry off the ground in any oil state, where more money can be made more easily by the private sector through trading and speculation in property than by making long-term investments. That is compounded in the Sultanate by what officials term the low absorptive capacity of the economy: a population of only just over 1m is unlikely to generate sufficient demand to render any large manufacturing operation viable.

For this reason, the Government has focused its efforts on small- and medium-sized businesses specialising in import substitution, preferably using domestically-obtainable raw materials.

Mr Lamki says: "For the next 20 years, we have ruled out heavy industry altogether. It would be a mistake for us to try to run before we can walk."

Problems with imports seem more intractable. For as Oman officials see it, some local industries are being prevented even from learning to walk by subsidised competition from elsewhere in the Gulf. Electricity, gas and water rates for industry are much higher, for example, in Oman than in Saudi Arabia. Even factory rents on the Sultanate's fledgling industrial estate at Rusail, at ROI per square metre, cannot match the generous incentives offered by its big western neighbour.

Oman can only protect its infant industries to a limited extent. The Sultanate was a signatory to a 1981 GCC agreement to phase out import duties and other trade barriers between member states. Luckily, it was given a tem-

porary exemption from this for eight key products—allowing Oman to raise customs duties of up to 20 per cent on cement, for example.

But some officials maintain that even this has not been enough to shelter the Oman Cement Company, which only recently started production, from cheap competition from Saudi Arabia and the United Arab Emirates. And it will not be long before that exemption expires.

"Unity has a price," says Col. Salim Bin Abdullah Bin Ghazali, Oman's Minister of Commerce and Industry, referring to the GCC. "But if we go on like this, we will not have any industry in Oman."

Subsidies

Several GCC committees are heaving away trying to find a formula under which the gap between the indirect subsidies offered to industry by the various member states would be closed, and it was set to be an important issue at this month's regional summit.

Col al Ghazali insists: "The gap has to be closed by other countries cutting their subsidies, but that is just not happening."

Oman clearly could not afford to offer subsidies on the scale provided by its richer neighbours. But even if it could, it would probably be inhibited from doing so by its political attitude. There is a deep-seated opposition to heavily subsidising industry at every level of Government, from the Sultan downwards.

Successful enterprises started by the Government, like the Oman Flour Mills, have tended to be sold off to private investors as soon as they could stand on their own feet. "As soon as you give people something for nothing, they will

think of it as a right," says Col al Ghazali, in a phrase which Mrs Margaret Thatcher would be proud.

"What we want to do is give incentives so that the private sector can work," says Mr Lamki. "We don't want them running to government every time they get into trouble."

Behind the rhetoric, the Oman Government does offer considerable incentives of its own, including 20-year interest-free loans, tax exemption for all 100 per cent Omani-owned companies, grants for project feasibility studies, and so on. Imports of equipment for local factories are duty free, and for foreign companies there are no restrictions on transferring profits abroad.

The Government, which needs foreign technology and more importantly expatriate expertise, is now keen to encourage foreign companies to set up plants in the Sultanate, rather than just regarding it as a market to be supplied with goods and services from home. Its preferred formula is the joint venture with majority Omani ownership, although it is prepared to consider other options.

The minister has his eye on between 20 and 30 projects over the next five years, in areas which include food processing, building materials and household appliances (assembling air conditioners is one example).

His officials are also examining the feasibility of setting up downstream copper industries to process metal from the Sohar smelter and exporting several more industrial estates, the first of which will probably be at Sohar on the northern coast.

But the Sultanate has a long way to go before its industry will be in a position to help the country significantly once the oil runs out.

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Problems mar copper success

Oman's production, though modest by international standards, is an important additional source of revenue, says Andrew Gowers

THE ROAD west from Sohar twists and turns through the ruggedly beautiful foothills of the western Hajar mountains. All around the landscape looks increasingly arid and empty as you make your way from the fertile coastal plain.

Yet suddenly, between two crags, you spy a wisp of white smoke, then a chimney, then a full-scale industrial plant. This is the Sohar copper smelter and refinery, part of Oman's first and only integrated metal mining operation and one of the very few copper-producing plants in the Middle East.

Together, the mines, smelter and refinery operation represent the flagship for the Sultanate's efforts to diversify exports away from oil. They are producing 14,000-15,000 tonnes of high-grade copper cathodes a year, all of it for export.

This is small by international standards, but nonetheless an important additional source of revenue for Oman, bringing in an estimated RO 5.74m (\$17.2m) last year.

It is by no means the first time that copper has been produced in the region: in Old Testament times there were mines dotted all over what is now known as Oman. From about 3,000 BC, copper was exported to the Sumerian empire in Mesopotamia, but

mining stopped in about 540 AD.

Near the modern smelter and mines, countless traces of the old workings can still be found, including thousands of tonnes of ancient slag, which is now used to make abrasives.

The present mines date from 1975, when two companies—Prospection of Canada and Marshall of Texas—obtained an exploration concession for 47,000 sq km of territory in Oman. Within a few years they had found more than 100 mineral prospects.

Three deposits, quite close together, looked particularly promising—two of which were developed into what are now the Lasail and Bayda mines. A concentrator, smelter and refinery were added, and production was in full swing by mid-1983.

Premium

Total capital cost of the development was \$215m, \$100m of which came from the Saudi Fund for Development and the rest from the Oman Government itself.

The operation, run by the 100 per cent Government-owned Oman Mining Company, produces cathodes which are acknowledged to be of unusually high quality and therefore command a significant price premium on the world market.

They were listed as a recognised brand on the London Metal Exchange in double quick time, and Britain's Amalgamated Metal Corporation has a contract

to take some 12,000 tonnes a year, mainly for customers in Europe. The rest is sold on the spot market.

In addition, OMC generates some small revenue from the gold and silver that is present in the smelter residues—the so-called "anode slime"—which Johnson Matthey extracts and ships back to Oman for sale in the country's gold and silver souks.

The venture employs about 800 people and has provided considerable benefits to the otherwise fairly deprived northern region of the country. Infrastructure such as roads, a power station, a jetty and a small town for employees accounted for nearly half the capital cost, and the plant provides electricity to nearby towns.

There are also plans for the establishment of downstream copper industries nearby. But though it can be considered a success in these terms, the operation faces a host of other problems.

The most obvious is the glutted state of the world copper market. Prices, currently hovering between 60 and 70 cents a pound, are well below what they were expected to be when the mine was established, and large quantities of metal lie around outside the smelter—sold but not delivered.

The low level of prices has already taken its toll at Sohar: it breaks even at an operating level but after depreciation is making a loss. Plans for a third mine, Azra, which was supposed

to come into production next year, have been shelved for the time being.

Second, there is the grade of the copper deposits being mined. The plant was built in the expectation of ore grades of about 2 per cent, but only 1.7 per cent on average is being obtained.

This means that the smelter and refinery are running somewhat short of their design capacity of 20,000 tonnes a year.

Smelting

Most worrying is the expected life of the deposits. The Bayda mine is expected to expire as early as next August, while Lasail—which contains some 70 per cent of all the copper found in the immediate vicinity—has a maximum of eight years of life left.

Bishi Mining of Japan has an exploration contract to look for more copper within a 30 km radius of the smelter, and OMC officials believe that deposits will be found. But they may not be large enough to be economic.

As a result of the immediate concern, OMC is considering using its plant for toll smelting of imported concentrates, either after the Lasail mine expires or before that, to extend its life.

Though there is a world surplus of smelting capacity and an apparent shortage of concentrates, officials believe the Sohar operation has two advantages: its relative proximity to India, which exports a lot of concentrates for processing in Japan at present; and the low freight rates on ships from Oman to Europe.

Even so, the fact that the copper is likely to run out soon might be said to put the initial heavy investment in a hard light.

As one foreign observer put it: "Anywhere else in the world, they would never have built a smelter and refinery for such a low tonnage, especially in such a remote location where you have to provide all the infrastructure."

In the present climate, the wisdom of the decision to do so has yet to be shown.

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OMAN 10

Banking/Law

Procedures and practices for specific needs

IT IS virtually unheard of for a lawyer in practice in Oman to need to refer to a law or decree promulgated before 1970. All the commercial laws in force in the Sultanate are subsequent to the accession of Sultan Qaboos, and if any commercial legislation existed before (which is doubtful) its memory and effect have sunk without trace.

The country does not have a written constitution, and all legislation is contained in Royal Decrees, Laws and Decisions promulgated with the Sultan's authority. The functions of the ministries and other organs of government, including the power to issue delegated legislation, are set out in the law setting up the Administrative Apparatus of the State (1975) and subsequent legislation.

The Omani Authorities have not sought to adopt the legal system of another country but have striven to develop their own. Much legislation is similar to that which has been promulgated in other Gulf countries, and tends to reflect the influence of Egyptian (and thus ultimately French, Napoleonic) law, on which the laws of most other Arab jurisdictions are based.

However, it is important to realise that this is no more than a tendency and that Omani commercial law and the procedures and practices in accordance with which it is put into effect have been designed to meet the specific needs of modern Oman.

As no pre-1970 developments had left a mould in which the legal system would have to be cast, the authorities have been able to develop it in their own way and at their own speed. The result is a rapidly growing system of law which has its own particular characteristics.

Evolution

A good example of how Oman has developed an institution to serve its own requirements is the evolution of the body which has jurisdiction in commercial matters. In 1974 when the Commercial Companies Law was promulgated (ten years before that of the United Arab Emirates) it contained a chapter setting up a body within the Ministry of Commerce and Industry for the Settlement of Commercial Disputes.

It was composed of merchants noted for their integrity and commercial expertise, and had judicial power to decide cases. It was inspired by earlier informal arbitration committees. Under its revised constitution of 1975, the under secretary in the Ministry was chairman and the other members included high-ranking civil servants from the Ministry and the President of the Chamber of Commerce and Industry as well as merchants.

The idea behind the committee was that the members on its bench would have a feel for the rights and wrongs of commercial disputes and would be able to penetrate straight to the heart of a matter. It was a relatively informal body, and it decided most cases very quickly, within a matter of a few months of the filing of the original plea.

It awarded judgments for the payment of interest when parties of equal bargaining power had agreed that interest would be payable at a reasonable rate, but in the case of an insolvent debtor (and in the absence of law covering bankruptcy in any detail) payments of interest would often tend to be postponed until all debts of specifically capital sums had been repaid.

In early 1984 its jurisdiction was transferred to a new, independent body, the Authority for the Settlement of Commercial Disputes, which is not under the control of the ministry. The establishment of the Authority thus appears to introduce the doctrine of the separation of powers into the Omani legal system.



Nearly all of Oman's law dates only from 1970, which has enabled the Sultanate to develop commercial legislation to suit its modern requirements, says John McHugo.

Its bench includes experienced commercial judges, the first of whom have been recruited from Egypt, and retains the expertise of the representatives of the Ministry of Commerce and Industry and the chamber of commerce and industry. The reason for the introduction of the Authority is the increasing sophistication of Omani legislation and the commercial environment.

It is a more formal body than the committee but it preserves the latter's advantages of the speedy resolution of disputes and the absence of red tape. Although its procedures owe much to civil law models, it equally has a large debt to intrinsically Omani ideas of mediation and compromise.

This is particularly apparent when the Authority applies principles of justice, equity and commercial custom in the absence of any express provision in Omani law. It is noteworthy, too, that government bodies may agree to be a party to a dispute before it in the same way as any other litigant.

As at the end of October 1985, important commercial legislation in Oman includes laws regulating banks, insurance companies, civil aviation, companies, agencies, the establishment of industrial projects, execution of government contracts, government tenders, labour, registration of commercial enterprises and of title to land, and investment and trading by foreigners.

There are major areas of commercial law in which little legislation has been enacted; the obvious examples being contract and tort. This inclines lawyers to adopt a cautious approach, and to try to allow for every possible contingency in their drafting. In the manner of lawyers in common law countries.

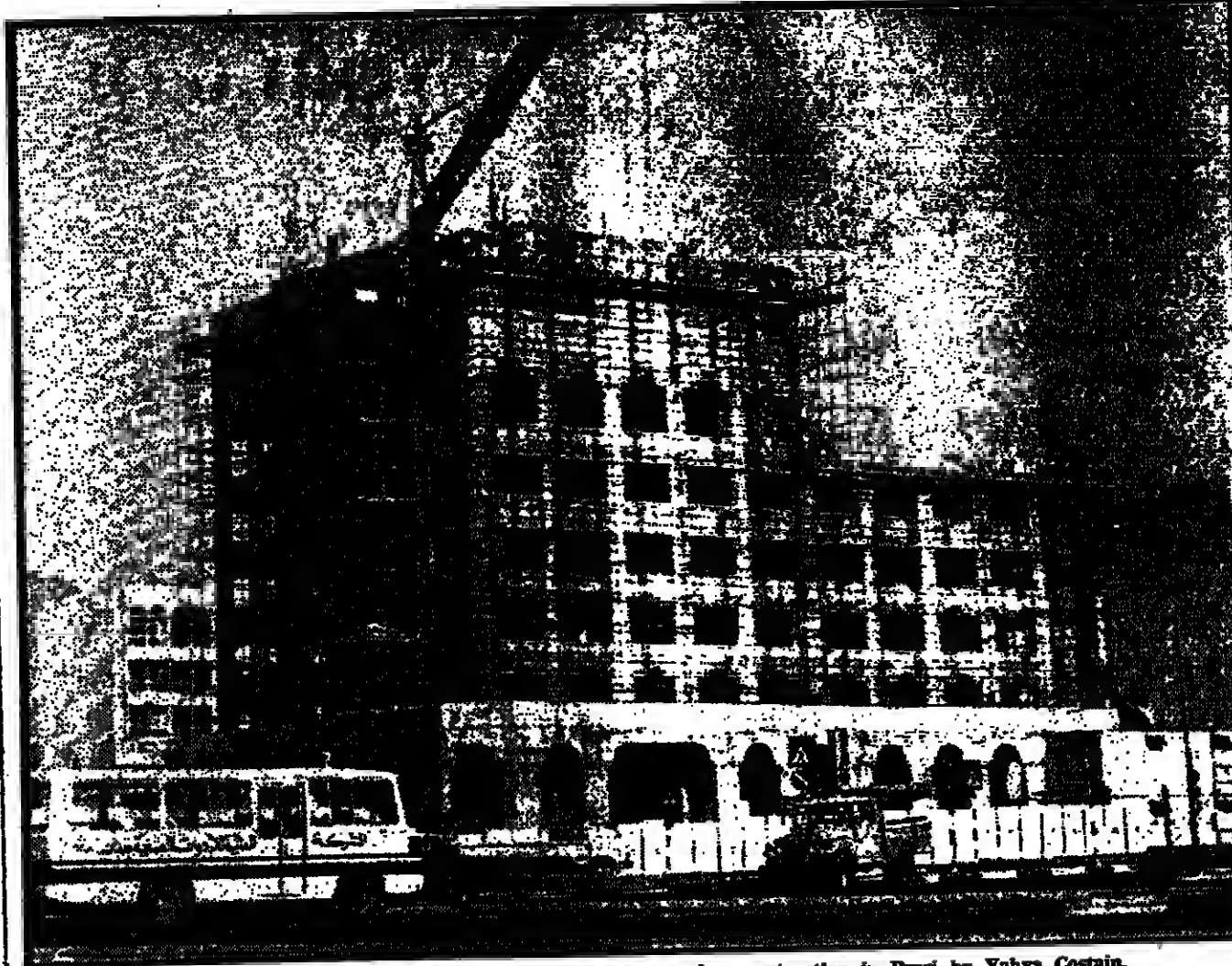
Tax status

Developments in commercial law which are expected in the near future include clarification of the tax status of wholly Omani-owned companies (the provision exempting them from income tax on companies expired on June 30 last) and the introduction of a commercial code (widely rumoured to be based on the Kuwaiti code of 1980 but adapted to suit the needs of Oman).

There is much speculation as to its contents, particularly as to whether it will contain provisions regulating bankruptcy and intellectual property.

The impact of the Gulf Co-operation Council and the movement towards the harmonisation of the laws of the member states remains to be seen, but it is hard to see the Omani authorities amending Omani law unless they are certain that the amendments will be in the interest of Oman and consistent with the established pattern of Oman's development.

John McHugo is a partner in Truener, Still and Keeling.



Head office of the British Bank of the Middle East under construction in Ruwi by Yahya Costantini.

Rapid pace expected to slow

THE British Bank of the Middle East has been part of the financial furniture in Oman since 1948. It was the first bank to be established in the Sultanate, and for 20 years had a monopoly probably without parallel—acting as commercial bank, central bank, finance ministry and the former Sultan's personal banker as well.

So when BBME, which is owned by Hongkong and Shanghai Banking Corporation, decided last year to sell off three-quarters of its branch network in the country to a smaller 100 per cent Omani-owned rival, it was the clearest possible indication that something fundamental is changing in Oman's banking industry.

In a deal worth RO 5m (\$1.75m), 14 former BBME branches went to Oman International Bank (OIB), giving it the second largest network after National Bank of Oman. But BBME is not withdrawing from the market. Far from it: in terms of assets and deposits it was still the second biggest bank at the end of last year. What it has done is to regroup and refocus its activities.

"They didn't see their role as running a large retail service in the domestic market," says a banker. "They wanted to concentrate on medium-sized to large trading companies."

It is a trend which can be seen all over the banking system, and one which is probably an inevitable accompaniment to the expected slowdown in economic growth over the next few years.

The banking industry has grown by leaps and bounds, in line with the rest of the Omani economy. Last year, for example, total assets soared by 21 per cent to RO 1.22bn, with 40 per cent of the increase accounted for by an expansion of credit to the private sector.

Bankers expect the total cake to continue growing over the next few years, though at a less frenetic pace. But the new business is being shared out in a different way between the 22 banks allowed to operate in the Sultanate.

The fastest-growing banks are now majority- or wholly-owned by Omani investors; National Bank (which now has more than 50 branches), OIB, Bank of Oman, Bahrain and Kuwait and, at the smaller end of the scale, Al Bank Al Ahli Al Omani.

They are hastening to extend their branch networks and step up retail services, while the foreign banks prefer to stick with a relatively small number of branches and concentrate on corporate accounts.

The reason for this growing divide lies in a mixture of economics and regulatory politics. There is no doubt that the big banking money still resides in the capital, Muscat. That is where the majority of trading activity takes place and where the all-important project payments from the public exchequer originate.

Lending opportunities in the regions remain extremely limited, and—given the population's relative lack of sophistication with regard to banking services—there is as yet no great deposit base in the interior waiting to be tapped.

Lending

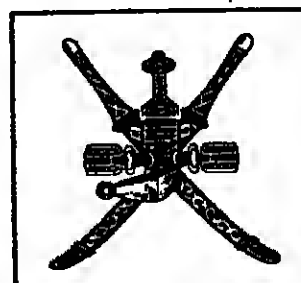
As a result, the capital city has tended to become over-banked (though not nearly as badly as in some neighbouring countries such as the United Arab Emirates), while banking services have in the past been slow to grow in the interior. But that money which is drawn into the banking system from the regions is often deployed for lending in Muscat.

The Central Bank of Oman is out to change all that. For some time it has stipulated that any bank wishing to open a new branch in the capital must first open two in the interior.

"We have reached the stage of a different kind of expansion," said an official. "Banking in the capital has reached saturation level."

"We don't need any more banks. What we need is an expansion of banking services throughout the country. We do not want to repeat the mistakes of others by denying banking services to the rural areas."

The CBO's central bank's logic is impeccable. But the compulsion to set up branches in the regions undoubtedly will increase the costs of the banking industry as a whole without necessarily boosting its volume.



The industry has grown at a frenetic pace, in line with the rest of the economy. Andrew Gowers describes how the new business is being shared out differently between the banks.

of business sufficiently to compensate. In that sense, BBME's reduction of its branch network is a telling commentary. The regional bias is only one way in which the grip of the central bank is being felt more acutely these days by the banking sector—already one of the most tightly regulated in the Middle East.

The central bank's controls include:

- Fixed ceilings on interest rates which banks can pay on private sector deposits (9.5 per cent) and charge on loans (11.5 per cent).

While this would appear to guarantee a fixed profit on lending operations, bankers complain that their margins are in practice frequently squeezed because their more powerful customers can command lending rates significantly lower than the official ceiling.

In addition, the deposit rate ceiling does not apply to government funds.

A limit on foreign currency exposure. Banks are not allowed to hold foreign exchange positions amounting to more than 40 per cent of their capital and reserves.

This rule was imposed when there was a significant outflow of funds from Oman into higher-yielding Euro-market deposits. Euro-dollar rates are now below the Omani interest rates, so that trend has been largely reversed.

But the rule has had the effect of bottling up excess liquidity which cannot be put to productive use within the country because of the paucity of lending opportunities in the private sector and on the money market.

In fact, this is not a problem at present, because the banks are having to extend large overdrafts to their customers as a result of project payment delays; overnight interbank interest rates are currently above 7 per cent, indicating a degree of monetary tightness rare for Oman.

Lately, the authorities have been trying to push the banks in three main directions.

First, the Central bank is putting constant pressure on

them to increase their capital. Last year, it raised the statutory capital/assets ratio to 1.25 from 1.27—still quite generous by western standards. And of the beginning of 1985 it told the banks to include a proportion of contingent liabilities such as letters of credit and guarantees in their total assets.

Second, the Government has singled out the banks to lead the way in "Omanisation." By the end of this year the banks were supposed to be 90 per cent staffed by Omanis. Most of them are far off this target and there are frequent complaints of a shortage of skilled recruits, despite the creation of an official bankers' training institute.

Third, the central bank is mounting a determined effort to increase the sophistication of the local credit market. Its main target is the post-dated cheque, still the favourite way of doing business among Omani traders. The central bank wants to encourage them instead to use officially-recognised, discountable commercial paper, which would enable it to keep closer tabs on the market.

Earlier this year the bank observed somewhat tetchily that banks had been "lukewarm" in complying with a previous requirement that they should hold 10 per cent of their loan portfolio in the form of discounted bills. From next April, therefore, they will only be able to make ordinary loans to the value of 75 per cent of their total deposits, compared with 85 per cent now.

Worried

If they want to lend the full 85 per cent, 10 per cent of it will have to be in the form of discounted bills.

Some banks are very worried by this prospect. They doubt whether traders will agree to abandon the post-dated cheque in favour of other types of paper, unless the former is outlawed altogether, and fear that their total lending will have to drop as a result.

"This is assuming a fundamental change in ways of doing business," says one banker.

The central bank argues, however, that the new rule will inject additional flexibility into the banks' portfolios, in that they will be able to discount such commercial paper at the central bank's discount window when they need to. Its main objective is to divert funds from consumer credit to proper corporate and trade finance.

The banks eventually will knuckle under. Whatever their complaints, they cannot argue that tight central bank regulation has significantly dented the sector's overall profitability over the past couple of years. After an admittedly stagnant 1983, gross bank profits rose by some 28 per cent last year to OR20m.

In the long run the central bank probably would like to see some reduction in the total number of banks in Oman, but rationalisation is not urgent. "We have no problem banks," says an official.

The big five banks

| | Year of establishment | (in Rm) | Assets | Deposits | Branches |
|-------------------------------------|-----------------------|-------------|-------------|-------------|-----------|
| 1 National Bank of Oman | 1973 | 1983 1984 | 288.3 359.7 | 211.0 251.5 | 1983 1984 |
| 2 British Bank of the Middle East | 1948 | 103.9 103.8 | 91.8 73.7 | 18 18 | 56 56 |
| 3 Oman International Bank | 1975 | 58.7 96.0 | 30.9 69.7 | 5 19 | 12 12 |
| 4 Bank of Credit and Commerce Intl. | 1974 | 68.8 85.9 | 58.5 71.1 | 12 12 | 12 12 |
| 5 Bank of Oman, Bahrain and Kuwait | 1974 | 62.8 78.7 | 47.1 56.9 | 12 17 | 12 17 |

* Ranked by assets.



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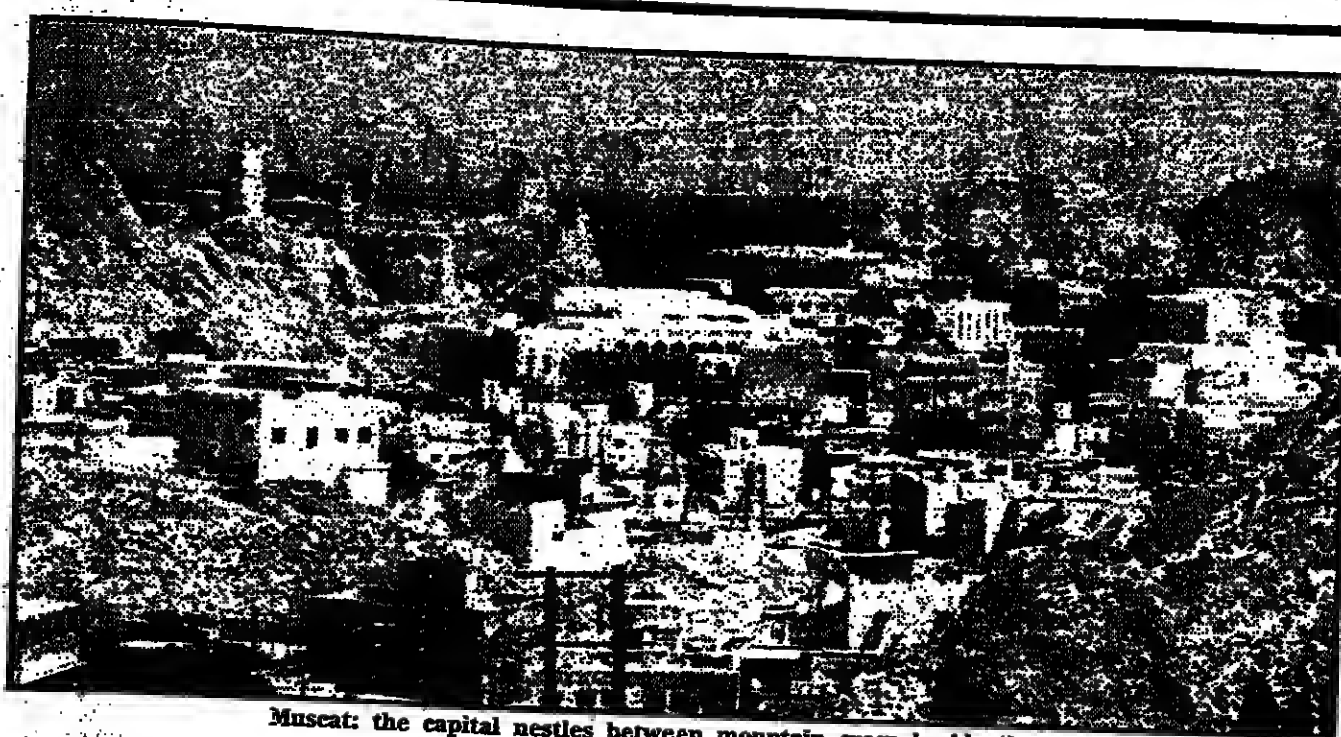
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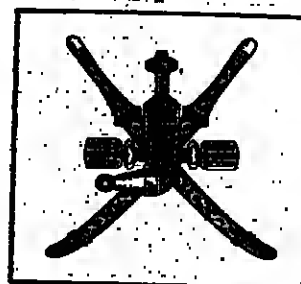
Visitors' Guide

OMAN 11



Muscat: the capital nestles between mountain crags beside the sea

Ancient and new in harmony



This friendly and beautiful country with its mountains, villages and spectacular coast offers many delights, free of the tourist crowds, says Andrew Gowers.

ALTHOUGH THE Sultanate has burst dramatically into the 20th century over the last 15 years, it is still a closely-guarded secret as far as the world's tourist industry is concerned—essentially because it is difficult to obtain visas for anything but a business trip.

One day, perhaps, the package-tour borders will be admitted. But before that happens, there is much for the foreign visitor and the large contingent of resident expatriates. The capital, Muscat, for example, is unique: an extraordinary strangle of towns and villages nestled between a set of huge and forbidding mountain crags beside the deepest of deep blue seas.

Each district has its own character and although they are now efficiently linked by an impressive network of Los Angeles-style freeways, each is worth exploring in its own right. For example, the bustling business district of Ruwi, a town which has mushroomed from nothing in the last decade or so, and the posh coastal resort of Qurum, with its ostentatious white houses and beautiful sandy beach.

Everywhere you look as you travel back and forth, a different angle emerges, or a new view, and you really do have to keep pinching yourself as a reminder that only a fraction of this existed before 1970.

Down there, buddled and hidden on the coast, are the modern tubes and tanks of the Mina al Fahal refinery. Up there, perched precariously on a promontory, the picture-book fortress of Jalali, Muscat's notorious prison in the days of old Sultan Said Bin Taimour.

The heart of it all lies in two adjacent but completely contrasting districts: Muscat proper and Muttrah. Walled Muscat is secretive, inward-

looking and ancient-feeling despite the relative newness of many of its buildings.

The Sultan's recently-built palace there sits at the centre of a small and quite enclosed bay. Next to it, pregnant with historical significance, the white and sandstone British embassy, above, one on each side, ever-watchful, the forts of Jalali and Merani.

Not for nothing was Muscat dubbed "the hidden port" by the old Greek navigators, protected from behind by the mountains, sheltered from the front by one of the most perfectly-formed natural harbours.

Muttrah, the area of the trading souks, by contrast, is bright, breezy and open. The wide bay, now lined with a modern concrete road and a port, seems to have its arms outstretched to welcome the ships calling there. Along the waterfront is a row of elegant old white Omani houses, complete with tastefully-decorated balconies.

And in the narrow alleyways behind are the gold, silver and textile merchants, babbling not in Arabic but in tongues from further afield. Many of the traders are Shia Moslems, originally from Hyderabad, or Bahuchis rather than native Omanis, although they settled in Muttrah mostly more than 100 years ago—just one facet of the Sultanate's astonishing ethnic mix.

Muttrah is the area where most visitors come in search of gifts. Silverwork is a key speciality of Oman, though much of the best old stuff is said to have disappeared from the souks years ago.

You can still see ornately decorated daggers—known as khanjars—nicknamed as a status symbol into many Omanis' belts.

The capital of the region,

You can buy newly-made examples, too—at a price. Gold jewellery, however, appears to have become at least as fashionable in Muttrah, and much of this is imported.

There is also a roaring trade, both here and in Niwra to what purport to be silver Maria Theresa dollars, the old Portuguese coins which until the 1960s were one of the Sultanate's numerous competing currencies.

Then there are the delights of the coast. The road leading from the east of Muscat past the fabulous Bustan Palace hotel, built especially for the Gulf Co-operation Council summit, takes you up into the mountains and to some spectacular views over the sea.

Forts

Further on is the delightful fishing village of Qantab, apparently unmoved by the march of progress brought to its doorstep by the modern dual carriageway, or by the spanking new fishing boats lined up on the shore.

To the west of the seemingly interminable capital area, and its new airport at Seeb, lies the Bahish plain, a long flat silty silver of land which for much of coastal Oman's chequered history was a battleground between hostile foreign powers.

The forts, dotted along the plain like Crusader castles, are a reminder of those times. But otherwise the coastal villages are quiet, retiring places, getting on in their modest way with fishing and agriculture.

Farmers tend their tiny flood-irrigated plots between scraggy groves of date palms and houses shut off from the world by high plastered walls, or lined up in rows of corrugated iron and palm fronds.

The capital of the region,

and of all Oman at one time, is Sohar, now a sleepy town dominated by a white and slightly crumbling fort. Here, too, the Omani mania for modernisation has made its mark. The old souk has been erased in preparation for some new development.

One of the favourite weekend pastimes of the more adventurous expatriate in Muscat is also an excellent way of at least getting a flavour of old rural Oman.

For this you need an extremely hardy four-wheel drive vehicle, to drive up the rocky mountain tracks of the Jebel Akhdar, plus a cool box packed with lunch and, preferably, a smattering of Arabic.

Once you leave the palm-lined oases of the plain and start bounding up the dry river beds (the wadis) into the mountains, you are in a different world. Vegetation dwindles to nothing, and the rocks all around look as if they have been bleached and scrubbed.

Then you chance upon a village, houses and palm trees crowding around a water source in an otherwise arid and inhospitable terrain. The people, however, are welcoming. They will proudly show you their recently-restored water supply system and if you are lucky, invite you into their houses for instant cups of cardamom-flavoured coffee, a feast of pomegranates and dates, or halwa, the favourite Omani sweet made of ghee, honey, nuts and spices and tasting a bit like Turkish delight.

Another fascinating excursion from the capital—largely by metalled road this time—leads south-west up the Sumayl gap to Niwra, former capital of the Omani interior and focus of resistance to the Sultan in the 1960s. The town is now a thriving centre with a busy silver souk—said to be Oman's best—and its own date-packing plant.

Old and new are again relentlessly juxtaposed: the antiquated round fort sits squatly like a crenellated gasometer next to a new mosque; the hub of a traditional livestock mart selling local cattle and goats is round the corner from a large vegetable market selling imported produce from the unlikelyst of places.

Further up the grey, gravelly wadi from Niwra lie more oases: the pretty village of Hamra with its solid, prosperous-looking watercourses; the potteries and alfalfa fields of the old walled settlement of Bahra; the imposing fortress of Jibreen with its ornate painted ceilings (to visit which you need to get a pass in advance from the Ministry of National Heritage).

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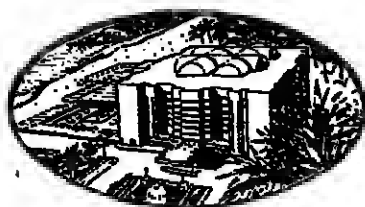
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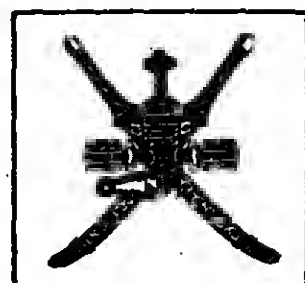
OMAN 12

Business Guide



Fishermen unload their catch at Mutrah en route to Muscat's restaurant tables

Where to stay, getting about



BY ROGER MATTHEWS

HOTELS
Muscat Intercontinental. (Tel: 600500, Tx 5491). Almost on the beach north of the prime residential district of Qurum. Convenient for most government ministries, and new motorways give easy access to commercial area. Comfortable and efficiently managed.

Rustan Palace Hotel. Built for this month's summit meeting of the Gulf Co-operation Council, soon to open to the public. Also managed by Intercontinental and prices likely to reflect its luxurious fittings.

Gulf Hotel. (Tel: 560100, Tx 5416). Also on the beach at Qurum. Popular with visiting business community.

Sheraton. (Tel: 795790, Tx 3353). New 18-storey building in the business district close to chamber of commerce. Opening to the public.

Al Falaj. (Tel: 702311, Tx 3229). In Ruwi, Oman's first established hotel has been modernised and is popular with expatriates.

Ruwi Hotel. (Tel: 704244, Tx 3456). In Ruwi and recently substantially extended. British-style pub, squash courts and snooker room. Popular with expatriates.

Seeb Novotel. (Tel: 510300, Tx 5199). Modern building, close to airport.

Prices range from RO 25 to RO 37 for a single room. Less expensive hotels include the Mina (Tel: 711828,



Warden of the castle at Jabrin, which has just been restored to its former glory

Tx 5350), the Mutrah (Tel: 798401, Tx 526) and the Al Nahda (Tel: 712385, Tx 5610). Outside the capital area is the Holiday Inn at Salalah (Tel: 461777, Tx 3368), on one of the world's loveliest beaches; a modest but comfortable motel at Niwa (Tel: 410500, Tx 8001) and a new hotel due to open shortly in Sohar.

VISAS

It is necessary to obtain a No Objection Certificate, usually through a local sponsor. Apply well in advance. The NOC is usually collected on arrival at Seeb airport.

TAXIS

Readily available at the airport, main hotels and parts of the capital. Sudden shortages can occur, especially in late evening. Vehicles are metered so negotiate the price in advance. Tariffs are advertised in the main hotels. From the airport to hotel the price is about RO.5. Car hire is also available from the main hotels.

ALCOHOL

Available in hotels, but British-style licensing hours apply. Some restaurants are dry. Expatriate residents may apply for a licence to purchase liquor.

BUSINESS HOURS

Ministries work from 7.30 am to 2 pm, Saturday to Wednesday, finishing an hour earlier on Thursday and closed on Friday. Companies follow a similar pattern but many close an hour earlier for lunch and return from 4 pm to 7 pm except on Thursday.

CLIMATE

Hot from April to the end of October with temperatures often in the 35 C to 44 C range. Can also be very humid on the coast. Warm winters with sometimes chill evenings.

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There are a number of heavily illustrated travel books, several of which are published by the Ministry of Information in Muscat.

Andrew Gowers recommends some of Muscat's excellent and varied restaurants

The delights of prawns in love

Muscat has a surprisingly rich variety of restaurant fare to offer the visitor who enjoys eating out, ranging from the Oriental to French haute cuisine. Much of it is of the highest standard.

But the restaurant prices may well dampen the enthusiasm of many visitors. And those in search of particularly Arabian specialities are in for a disappointment.

Seafood, of course, is a forte. The choice is wide, from kingfish and tuna via sole to crustaceans. Crayfish is a key item in most menus, and the prawns and shrimps are double the size of — and twice as tasty as — those we are used to in Europe.

One of the better seafood restaurants is the Istanbul (Tel: 713660), a relatively new establishment in a picturesque setting on the corniche at Mutrah. To complement the sea view, its walls are plastered with paintings of Arab dhow and the ceilings are covered with sails.

Some of the dishes are similarly rich, perhaps excessively so. But the "friture" of assorted fish to batter with a fruity sauce that I had was delicious for a starter, as was my companion's warm salad of sole and white asparagus.

As a main course, the improbably named "prawns in love," consisting of prawns sautéed with onions to pernod, was particularly pleasant. The cost of a three-course meal for two, with ample wine, came to RO 40 (about \$120).

For visitors who prefer more conventional European food, there is the Italian restaurant La Terrazza in Qurum (Tel: 602291). Its pasta dishes were especially good, better than those in most Italian restaurants in London, though the price at RO 15 a head all in, is about three times what you would pay in Europe. The wine list is good and reasonably priced by local standards.

At the upper end of the scale is the Intercontinental Hotel's Qurum restaurant (Tel: 600500), which serves the sort of meal you would find it difficult to obtain in a reasonably good French

restaurant outside France itself. The warm sole was excellent, as were the veal cooked in Most and Chandon and the scallops for a main course.

There were also nice touches such as the arrival of an unsolicited lime sorbet after the hors d'oeuvre, and a superb selection of cheeses. The genial French maître d', M. Hervé Baguerard, has promised to improve the wine list. The price: around RO 20 a head.

For those not prepared to splash out quite so much, there is a reasonable selection of coffee shops in the hotels, serving the usual range of steaks, omelettes and other British or international dishes, together with a few more adventurous Oriental items.

One of the best is in Qurum's Gulf Hotel (Tel: 600100), where a full meal with plenty of wine came to about RO 10 for one.

Popular

Very reasonably priced Indian meals can be had everywhere in the capital. One such restaurant, Princes in Al Khwair, seemed to be popular with Indian people themselves and served a decent chicken tikka, preceded by some slightly bland Chinese soups, for about RO 7 a head. The restaurant does not serve liquor.

However, the most interesting restaurant in Muscat is perhaps the Golden Oryx (Tel: 702666) in the business district of Ruwi.

This serves an excellent range of Oriental dishes, ranging from Chinese spring rolls and the best chicken and sweetcorn soup I have ever tasted, as well as other Mandarin and Cantonese dishes, to more spicy Malaysian and Indonesian-style food.

Everything is beautifully presented though the wine seemed very over-priced. And the restaurant fortunately lacks the irritating background music which intrudes in some of the other establishments, particularly those in the hotels. The meal came to about RO 11 a head.

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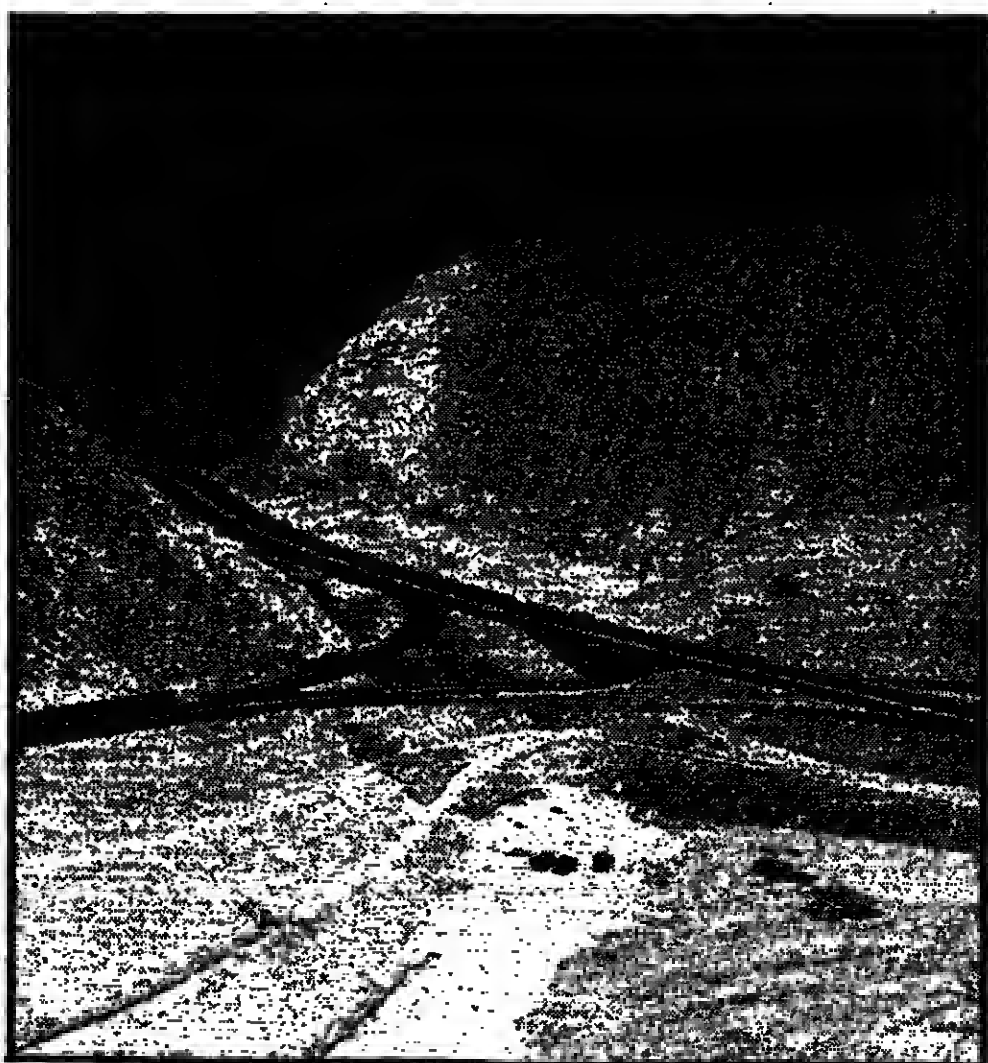
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Six-lane highway over the mountains from Ruwi to Al Bustan. Road communications in the Sultanate have improved enormously

SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday November 11 1985

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INTERNATIONAL BONDS

Balanced warrants structure gains acceptance

NOT a single common-or-garden fixed rate Eurodollar bond issue was launched last week, writes Maggie Urry in London.

The market has been left behind by New York, with the result that yield spreads have widened and swaps are unattractive unless a twist is added to the bond issue to reduce the borrowing cost a fraction.

Thus IBM's deal, which came with a floater, was a swap. This has the "heaven-or-hell" feature of a redemption amount varying from par if the yen/dollar exchange rate is either side of ¥168 to the dollar. The fixed-rate paper seemed to have been placed entirely by the lead manager Nomura International, and co-managers did not get any bonds.

Likewise the bond-with-bond warrant structure made its appearance twice, for Electricité de France and Sumitomo Trust and Banking. This concept is finding more acceptance in the market than it did

at first, partly because the balance between the bond and the warrants has shifted. In the original deals the bonds looked cheap and the warrants expensive. Now the warrants look the better value of the two parts.

EdF's warrants, issued at \$18, were trading as high as \$28 on Friday although at this level they looked overpriced, while the Sumitomo warrants, issued at \$17½, reached \$25 only hours after the launch.

With demand for the warrants good among speculative investors and the swaps shaving a small portion off the borrower's costs, there could easily be more of these issues.

The significant part of the EdF issue was the issue of 40,000 warrants priced at \$17½ to buy Swiss franc bonds, the first such issue, and a further breaking down of the barriers to the Swiss franc market. While the lead management was performed in Switzerland by a

EUROMARKET TURNOVER

Turnover (\$m)

Primary Market

Secondary Market

Total

Week to November 7 1985

Source: AED

| Country | Primary Market | Secondary Market | Total |
|----------------|----------------|------------------|---------|
| USA | 1,501.2 | — | 1,501.2 |
| UK | 2,225.4 | — | 2,225.4 |
| Other | 773.3 | — | 773.3 |
| Preceding Week | 1,798.1 | — | 1,798.1 |

| Country | Primary Market | Secondary Market | Total |
|----------------|----------------|------------------|----------|
| USA | 17,988.5 | 12,912.1 | 30,900.6 |
| UK | 14,080.1 | 12,912.1 | 26,992.2 |
| Other | 6,554.5 | 88.9 | 6,643.4 |
| Preceding Week | 4,854.3 | 202.9 | 5,057.2 |

| Country | Primary Market | Secondary Market | Total |
|----------------|----------------|------------------|----------|
| USA | 70,988.2 | 24,885.5 | 95,873.7 |
| UK | 71,322.2 | 26,481.5 | 97,803.7 |
| Other | 6,288.2 | 6,212.8 | 12,501.0 |
| Preceding Week | 6,854.2 | 4,847.2 | 11,701.4 |

Swiss bank, UBS, there was a Euro-flavour to the deal.

The other two big Swiss banks, SBC and Credit Suisse, were not in the issue, and some comments about the pricing were scathing. "I think the warrants are worth about \$20," said one banker.

Citicorp's deal was also unusual

and, while many dealers thought the idea of a two-year refix was a good one, particularly for the borrower, it proved hard work to sell to investors. Many salesmen seemed to think the effort of explaining the structure was too much for the number of bonds they had to sell.

The floater market was again active with more perpetual issues launched. Japanese investors are the main buyers of these deals and so far their appetites do not seem impaired by the glut on offer. However, some bankers who look further ahead ask, "What will happen when they all want to sell?"

The new-issue market is looking somewhat tired, but not as sick as it might given the weight of paper. "Every day we are putting a bit away," says one new-issue manager.

The secondary market also looks in good shape. Despite tight pricing all last week's issues were trading within their commissions.

The Bank of Ireland deal was helped by news of the borrowers' plans to call its two outstanding floaters. This deal also marked the entrance of E. F. Hutton to the book-running lists.

The deal for Development Fund of Ireland has been placed with Nordic Investors and was arranged by Invest Securities and Slesinger UK.

The non-dollar markets were quieter last week. The Euroyen market is still volatile with prices dropping sharply when interest rates rise. The retail investors who are likely to buy Canadian, Australian and New Zealand dollar paper are taking a breather despite the high coupons available in the latter two sectors.

The continental currencies have recovered, with D-Mark bonds gaining as much as 1½ points during the week as sentiment has returned to the positive and buying from abroad has come in.

The issue for Ford Motor Credit

EIF Bank bond average

Nov 8

Previous

1985

Low

| Nov 8 | Previous |
|---------|----------|
| 104.364 | 104.399 |
| High | Low |
| 105.803 | 99.840 |

was holding within its fees, while EIF's deal was trading close to par.

Equity-linked issues are popular at present with Movenpick's issue trading at 108½.

Seven of the nine floaters due this month have now been launched and the later deals have come under some pressure, with Wells Fargo in particular difficulty.

The Swiss franc market still has too much paper to contend with, but retail investors are gradually picking up bonds and prices were firming on average by around ¼ point.

The City of Yokohama issue traded for the first time on Friday closing at 98, compared with its 99½ issue price, a better debut than many recent issues have had.

Austrian banking regulators resign

BY PATRICK BLUM IN VIENNA

A SERIOUS crisis threatening the future of Austria's small co-operative banks has caused the resignation of the management board of the Oesterreichische Volksbanken AG (Ovag), the central institution which acts as a clearing bank for co-operative banks outside the agricultural sector, and handles demands for urgent government subsidies.

Ovag has asked the Government for Sch 500m (\$27.1m) to save several of its 130 members from possible collapse. However, some bankers in Vienna believe this may be a conservative figure, and as much as Sch 900m may be needed. Ovag's members are mainly engaged in financing small businesses, trade and tourism. Co-operative banks for agriculture are members of another banking group.

According to banking sources in Vienna around one-third of Ovag's members are in serious difficulties, and another third in moderate difficulties. The remaining third are healthy and do not face any problems. The problems have not affected

ed Ovag itself, which increased its profits last year to Sch 32.2m from Sch 31.8m in 1983.

The banks in trouble are reported to suffer from poor management, lax lending practices and under-capitalisation. Their problems could worsen next year with the introduction of a law to tighten bank capital ratios which is being prepared by the Finance Ministry.

Disagreements on how to deal with the crisis came to a head last week with the sudden resignation of Ovag's three-man board. They resigned after failing to win agreement for restructuring some of the banks and bringing in tighter controls over their activities. The banks and the Oesterreichischer Genossenschaftsverband, the Austrian co-operatives' association, opposed the management's plans on the ground that it would undermine the independence of member banks.

A new management board has been appointed and discussions with the Finance Ministry about aid will take place in the next few days.

Philippine National Oil plans further cutbacks

BY SAMUEL SENOREN IN MANILA

PHILIPPINE National Oil Company (PNOC) is consolidating its subsidiaries and cutting down on operations as a result of declining revenues and a shrinking domestic market.

Since January, PNOC, which is state-owned, has dissolved five subsidiaries and merged four others. Around 1,800 workers were laid off in the process.

Two of its largest subsidiaries, the Bataan Refining Corporation, which processes petroleum, and the marketing company, Petrophil, are due to be merged this month.

The merger of Bataan Refining and Petrophil, which are among the 10 largest companies in the Philip-

pinas, has become necessary because of a taxation scheme which the fiscal authorities plan to introduce in December.

The new tax structure provides a different set of sales taxes for manufacturers and retailers which would subject the two PNOC subsidiaries to taxation.

By the end of 1985, PNOC expects to retain only 14 subsidiaries, a number of which cannot be consolidated because previous loans contracted from multilateral institutions required them to maintain separate corporate entities. Some will eventually be sold to the private sector in line with the Government's privatisation programme.

EURONOTES AND CREDITS

Banks prepare for Christmas rush of Europaper deals

BY PETER MONTAGNON IN LONDON

BANKS are bracing themselves for a heavy stream of new Eurocommercial paper offerings in the weeks leading to Christmas. This instrument currently dominates activity in the Euronote and credit market.

Several deals have already been announced in the past week, including large programmes of \$500m apiece for Security Pacific Corporation and Oesterreichische Kontrollbank. Smaller deals include a \$100m programme for the New York Times, Friday New First Chicago bring General Dynamics, the US defence contractor, to the market for a programme of up to \$200m.

Eurocommercial paper programmes are far from new, but the extent of their acceptance testifies

to the growing depth of the placement market for short-term Euro notes. Fewer and fewer borrowers are finding it necessary to back up their issues with standby credit in the form of a multi-option facility.

As a result, the squeezing out of commercial banks from the lending process which began with note issuance facilities now seems to be going a step further.

Bankers say the Eurocommercial paper market can now offer borrowers terms that equal, or are even more attractive than those on the domestic US market. Though published rates for US commercial paper are still perhaps ¼ per cent below Libor, Eurocommercial paper itself is often sold by top-quality names at rates well below Libor.

Moreover, maturities in the Euro-

commercial paper market tend to be longer, averaging between three and six months, while those in the domestic US market are more frequently in the one-month range.

Some bankers claim Europaper has more appeal to investors because it is more liquid and therefore easier to trade than its US counterpart.

"The wheels are really turning," said one banker at the weekend who, like many of his colleagues, promised much new business in the pipeline for Eurocommercial paper.

However this also has some important implications for what business is left in the syndicated loan market where even deals on microscopic margins seem assured of success.

Credit Commercial de France's

operation for Italy's Credito, which amounts to \$70m and Ecu 50m and carries a margin of just ¼ per cent for five years, is heading for oversubscription. That response has some bankers asking whether such a low margin really constitutes a floor.

It is easy to find bankers who will throw up their hands in horror at the thought of even finer margins to come. The need to generate at least some return means they simply cannot sink much further and resistance may already be building up, they say.

Other bankers are not so sure. If Eurocommercial paper can be sold at rates below Libor and borrowers can obtain funds in the floating-rate note market at around Libor itself, then there can scarcely be any justification for a floor of 1 per cent for margins on Eurocredits.

That raises the spectre of a credit at Libor flat, an awful thought for most bankers, and a major challenge for any borrower who would want to perform such an operation in public.

This is not to say that any such deals are actually in the pipeline, although there is some suspicion that transactions may have been arranged privately at this level for Scandinavian borrowers. What is important about these arguments is that they show how far Libor has become misleading as a benchmark for banks and borrowers alike.

It is no secret that banks have been able to use the swap market to generate funds way below Libor.

That means there is still potential profit in a credit at this level, although in many institutions there would be intense internal problems parcelling out return between the credit division which brought in the business and the Treasury division which acquired the low-cost funds.

Meanwhile Gaz de France is planning a sizeable Euronote facility as part of a refinancing programme, while Deutsche Bank's \$100m credit for Bulgaria with its split ¼-½ margin has been increased to \$150m.

Other deals announced last week include the latest in a spate of financings for Arab banks. This is a \$50m, three-year facility for Kuwait Asia Bank led by Merrill Lynch and Kuwait International Investment Company.

This announcement appears as a matter of record only.

October, 1985



KINGDOM OF DENMARK

Japanese Yen 15,000,000,000

6¼ per cent. Bonds due 1992
Issue Price 100% per cent.

Fuji International Finance Limited

Credit Suisse First Boston Limited

Merrill Lynch Capital Markets

Yamaichi International (Europe) Limited

Algemene Bank Nederland N.V.

Bank of Tokyo International Limited

Banque Bruxelles Lambert S.A.

Citicorp Investment Bank Limited

Crédit Lyonnais

Daiwa Europe Limited

Genossenschaftliche Zentralbank AG - Vienna

IBJ International Limited

Kidder, Peabody International Limited

Kredietbank International Group

LTCB International Limited

Morgan Grenfell & Co. Limited

Morgan Stanley International

The Nikko Securities Co., (Europe) Ltd.

Nippon Credit International (HK) Ltd.

Nippon Kangyo Kakumaru (Europe) Limited

Nomura International Limited

Orion Royal Bank Limited

Smith Barney, Harris Upham & Co.

Swiss Bank Corporation International Limited

Westdeutsche Landesbank Girozentrale

Yasuda Trust Europe Limited

Privatbanken A/S

Copenhagen Handelsbank A/S

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NEW ISSUE All of these Notes having been sold, this announcement appears as a matter of record only.

CITICORP

U.S. \$500,000,000

Subordinated Floating Rate Notes Due October 25, 2005

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Citicorp Investment Bank Limited

Credit Suisse First Boston Limited

Morgan Stanley International

BankAmerica Capital Markets Group

Bank of Yokohama (Europe) S.A.

Bank Brussel Lambert N.V.

Banque Française du Commerce Extérieur

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Barclays Merchant Bank Limited

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Svenska Handelsbanken Group

Swiss Bank Corporation International Limited

Union Bank of Finland Ltd

S.G. Warburg & Co. Ltd

11th November 1985

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Lower interest rates widely expected

EQUITIES were the star turn on Wall Street last week, with the Dow Jones Industrial Average breaking through the 1400 level. But the credit markets also turned in a good showing for the second week in a row.

Short-term interest rates eased for most of the week, but this did not prevent prices of the long end of the market from rallying. The move was particularly noticeable on Friday when speculation about a cut in the discount rate once again began to influence the bond market. The Fed Funds rate slipped below 8 per cent for the first time this month.

By the end of the week the government's key long bond, Treasury 10 per cent due 2015, was standing at 104 1/2 and yielding 10.1 per cent. Four weeks ago the same bond was trading around 102 1/2 and yielding 10.6

| U.S. MONEY MARKET RATES (%) | | | | |
|-----------------------------|-------------|------------|-------------|--------------|
| | Last Friday | 1 week ago | 4 weeks ago | 12-month Low |
| Fed Funds (weekly average) | 8.21 | 7.96 | 8.01 | 7.96 |
| Three-month Treasury bills | 7.22 | 7.20 | 7.36 | 6.91 |
| Six-month Treasury bills | 7.23 | 7.20 | 7.36 | 6.91 |
| Three-month prime | 7.22 | 7.20 | 7.36 | 6.91 |
| 30-day Commercial Paper | 7.22 | 7.20 | 7.36 | 6.91 |
| 90-day Commercial Paper | 7.22 | 7.20 | 7.36 | 6.91 |

| U.S. BOND PRICES AND YIELDS (%) | | | | |
|---------------------------------|-------------|------------|-------------|--------------|
| | Last Friday | 1 week ago | 4 weeks ago | 12-month Low |
| Seven-year Treasury | 104 1/2 | 104 1/2 | 103 3/4 | 103 3/4 |
| 30-year Treasury | 104 1/2 | 104 1/2 | 103 3/4 | 103 3/4 |
| New 10-year Financial | N/A | N/A | 111 1/2 | 111 1/2 |
| New 10-year Long Utility | N/A | N/A | 111 1/2 | 111 1/2 |
| New "AA" Long Industrial | N/A | N/A | 111 1/2 | 111 1/2 |

Money Supply: In the week ended October 22 M1 fell by \$2.2bn to \$611.4bn.

But the credit markets were in no mood to be frightened by this sort of scare talk. As Aubrey G. Lantson, David Jones noted in his weekly market letter, "There is a growing bond market conviction that out of all this Congressional chaos will come efforts to cut the deficit in the President's expected fiscal year 1987 budget proposal."

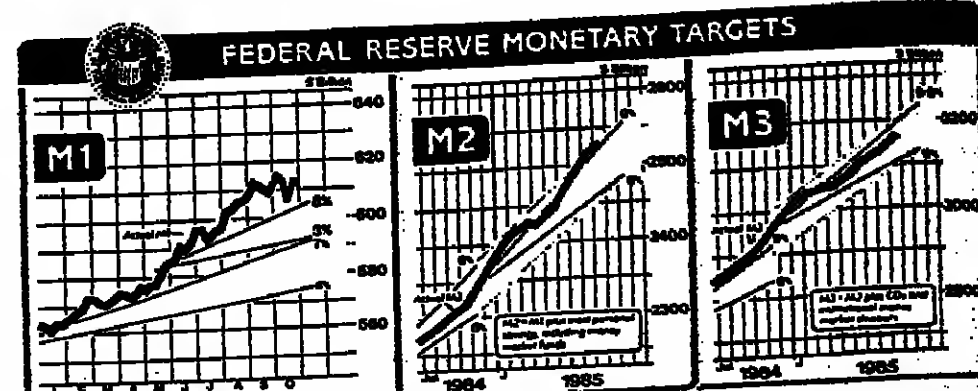
Notwithstanding the huge amounts of government paper which will be unleashed onto the market over the few weeks raised, the bond market has convinced itself that interest rates are heading lower. Salomon Brothers' Henry Kaufman, who was talking about a discount rate cut four months ago, says in his latest missive that "an easing in monetary policy may be imminent."

Mr Kaufman, in common with many Fed watchers on Wall

Street, was greatly encouraged by Federal Reserve chairman Paul Volcker's highly unusual letter to Mr Walter Fauntroy, chairman of the House subcommittee on domestic monetary policy. In his letter, which was released the day after last week's Federal Open Market Committee Meeting (FOMC), Mr Volcker "agreed that growth of M-1 over the second half of the year as a whole above the target range established in July would be acceptable."

Normally the contents of the FOMC meetings are kept secret for several weeks, but the credit markets interpreted his comments as indicative of the outcome of the meeting and effectively eliminated the chances of any Fed moves to tighten reserve pressures over the medium term.

Mr Kaufman says that the letter confirms the greatly reduced role of M-1 in current monetary policy deliberations and concludes that "lower interest rates seem required for a resurgence in economic activity." The latest sales statistics from the motor vehicles were disappointing, and the recent sharp drop in



car sales in October have led many analysts to predict that this week's economic news will underlie the sluggishness of the US recovery.

The October retail sales figures, due on Thursday, could show a drop of 3.5 per cent or more and the October industrial production figures, due the next day, are estimated to show a rate of no more than 0.3 per cent.

Not everyone is as confident as Mr Kaufman appears to be about the likelihood of a discount rate cut. Aubrey Lantson accepts that the Fed faces the option of either holding an easing step, including a possible discount rate cut, but

Some analysts argue that if the Fed is going to cut the discount rate it might wait until the "flash" GNP estimate for the fourth quarter is released just before Christmas. Last year the Fed cut the discount rate by half a point on Christmas Eve which sent dealers home in a very festive mood.

Bob Brusca, a money market economist with New York's Irving Trust, is more optimistic than some of his colleagues about the economy and is looking for growth in the current quarter of over 4 per cent. He believes that with this sort of growth and the recent decline in the dollar there is no compelling reason for a discount rate cut.

Although analysts are divided about the prospects for an early

cut in official interest rates, there is nothing the credit markets like better than speculation about a discount rate cut and most dealers expect the bond market to hold up well this week.

"It is better to be expecting a discount rate cut than to have one," said one seasoned bond market player last Friday. The main action in the bond market often takes place before the cut in rates takes place and many dealers see this as distorting their current short-term trading strategy.

"Even if you do not want to be long you cannot afford to be short" was how another dealer summed up his short-term outlook on the credit markets.

William Hall

FT/AIBD INTERNATIONAL BOND SERVICE

| US DOLLAR | Chg. on | Yield |
|-----------------|---------|-------|
| STRAIGHTS | | |
| AHFC 0/5 11 1/2 | 100 | 10.5 |
| AHFC 1 1/2 | 100 | 10.5 |
| AHFC 2 1/2 | 100 | 10.5 |
| AHFC 3 1/2 | 100 | 10.5 |
| AHFC 4 1/2 | 100 | 10.5 |
| AHFC 5 1/2 | 100 | 10.5 |
| AHFC 6 1/2 | 100 | 10.5 |
| AHFC 7 1/2 | 100 | 10.5 |
| AHFC 8 1/2 | 100 | 10.5 |
| AHFC 9 1/2 | 100 | 10.5 |
| AHFC 10 1/2 | 100 | 10.5 |
| AHFC 11 1/2 | 100 | 10.5 |
| AHFC 12 1/2 | 100 | 10.5 |
| AHFC 13 1/2 | 100 | 10.5 |
| AHFC 14 1/2 | 100 | 10.5 |
| AHFC 15 1/2 | 100 | 10.5 |
| AHFC 16 1/2 | 100 | 10.5 |
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| AHFC 18 1/2 | 100 | 10.5 |
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| AHFC 25 1/2 | 100 | 10.5 |
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| AHFC 92 1/2 | 100 | 10.5 |
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| AHFC 98 1/2 | 100 | 10.5 |
| AHFC 99 1/2 | 100 | 10.5 |
| AHFC 100 1/2 | 100 | 10.5 |

| UK Gilts | Chg. on | Yield |
|---------------------|---------|-------|
| STRAIGHTS | | |
| UK Gilts 0/5 11 1/2 | 100 | 10.5 |
| UK Gilts 1 1/2 | 100 | 10.5 |
| UK Gilts 2 1/2 | 100 | 10.5 |
| UK Gilts 3 1/2 | 100 | 10.5 |
| UK Gilts 4 1/2 | 100 | 10.5 |
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| UK Gilts 8 1/2 | 100 | 10.5 |
| UK Gilts 9 1/2 | 100 | 10.5 |
| UK Gilts 10 1/2 | 100 | 10.5 |
| UK Gilts 11 1/2 | 100 | 10.5 |
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interest rates seem required for a resurgence in economic activity." The latest store sales statistics - from the major retailers were disappointing and the recent sharp drop

UK GILTS

Cautio

THE GILT market waited vain on Friday for a US discount rate cut, seen as about the only development that could lift the gloom of last week's dismal trading conditions. The long end fell up to 2 points on the week.

The tone was set on Monday by the Government's Monetary decision to cut the prices of two taplets when, in the view of many traders, he had need to do so. It was reaffirmed on Thursday when sterling dropped sharply.

Given that short-term interest levels now depend heavily on the pound's performance, it is of paramount importance the gilt market. "When the dollar goes up, sterling goes down. When the dollar goes down, sterling does not do anything," one trader gloomily observed.

Some jobbers were aggressive in marking down prices, as futures pits in particular have become rather a battlefield since the emergence of the Giles Cresswell/Merrill Lynch combine as a prominent player.

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Morgan Guaranty continues to manage issues in more currencies than any other underwriter

With the current uncertainty in the U.S. dollar exchange rate, non-U.S. dollar capital markets continue to grow. In this environment, more and more multinationals are turning to The Morgan Bank for non-dollar bond financing.

In the first nine months of 1985—in which over half of all international bond issues were in non-U.S. dollar currencies—our subsidiary Morgan Guaranty Ltd was lead manager of issues in a wider range of currencies than any other underwriter.

Here's what makes Morgan a truly global financial intermediary.

□ As a major participant in the international securities markets—as well as the worldwide foreign exchange, government bond, and bullion markets—we have an exceptional ability to perceive and exploit market opportunities for our clients.

□ Morgan is the leading counterparty that can act with equal proficiency as either principal or agent in interest-rate and currency swap transactions.

□ Morgan's financial strength—over \$5 billion in primary capital—lowers our clients' cost and risk in intermarket arbitrage.

Our clients find that using foreign currency bond markets broadens their investor bases and facilitates economic and accounting hedges of overseas investments. Through currency and interest-rate swaps we help them create dollar obligations at substantially reduced costs. We also identify opportunities to earn arbitrage profits in non-dollar markets.

Some examples of how Morgan has helped borrowers take advantage of new opportunities in non-dollar markets so far this year:

Deutschmarks. Morgan Guaranty GmbH was lead manager of an R.J. Reynolds DM265 million issue swapped into U.S. dollars. This was the first

Selected non-U.S. dollar issues
lead-managed by Morgan Guaranty
January–October, 1985

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|--------------------------|----------------|
| Bank of Tokyo | A\$50 million |
| British Petroleum | ¥17 billion |
| British Petroleum | £50 million |
| Chrysler Financial | SF150 million |
| Chrysler Financial | NZ\$65 million |
| Coca-Cola Financial | NZ\$75 million |
| European Investment Bank | DKR250 million |
| Gaz de France | FF500 million |
| IBM Credit | NZ\$60 million |
| IBM France | FF700 million |
| IBM World Trade | ECU150 million |
| IC Industries | C\$50 million |
| ITT | SF100 million |
| J.C. Penney | ¥26 billion |
| Kingdom of Sweden | FF500 million |
| McDonald's | ¥25 billion |
| Mobil | FF500 million |
| Motorola | ECU50 million |
| Nordic Investment Bank | DKR200 million |
| Olivetti | SF100 million |
| PepsiCo | SF130 million |
| Peugeot | FF500 million |
| R.J. Reynolds | DM265 million |
| R.J. Reynolds | SF275 million |
| Security Pacific | ECU100 million |
| Sterling Drug | £30 million |
| World Bank | SF600 million |

straight Euro-Deutsche mark issue in which a foreign-owned firm acted as book-running lead manager.

Swiss francs. Morgan Guaranty (Switzerland) Ltd launched as book-runner a SF235 million issue which we combined with a currency swap to provide 15-year U.S. dollar financing for R.J. Reynolds. Increased to SF275 million, this was the largest Swiss franc offering to date by a U.S. company. In the Swiss public bond market we were also book-running lead manager for issues

for ITT, PepsiCo, Olivetti, and the first zero coupon issue for the World Bank.

ECUs. Morgan was lead or co-lead manager of ten ECU issues, including an ECU100 million issue for Security Pacific Australia which we swapped into U.S. dollar financing.

Sterling. We were book-running lead manager for Euro-sterling bond issues for British Petroleum and Sterling Drug. In addition, Morgan lead managed a \$100 million issue for Minnesota Mining & Manufacturing that was the first dollar/sterling dual-currency issue ever.

Yen. For J.C. Penney, we arranged U.S. dollar fixed-rate funding, at a cost below the yield on U.S. Treasury notes, through a Euro-yen bond issue and currency swap.

New Zealand dollars. This year we've led nine issues, including a NZ\$75 million Coca-Cola Financial issue which we swapped into fixed-rate U.S. dollar financing.

French francs. We were co-lead manager, with two French banks, of a Gaz de France issue that reopened the Euro-French franc bond market after a four-year lapse. Then we co-led French franc issues for IBM France, the Kingdom of Sweden, Peugeot, Mobil, and Electricité de France.

Danish krone. We were lead manager for the first two issues in the Euro-Danish krone bond market, which opened this year.

Let us compete for your mandate. You'll find we deliver innovative services in the capital markets with the same high quality and skill that have long been hallmarks of all Morgan banking.

Morgan Guaranty Ltd, 30 Throgmorton Street, London EC2N 2NT

Morgan Guaranty Trust Company, 23 Wall Street, New York, NY 10015

The Morgan Bank

TECHNOLOGY

Moth Eye for the record

FLASCON DATA SYSTEMS of Melbourn, Cambridgeshire, has developed an optical data recording medium called Moth Eye. It is the first British company to enter the field.

Prices, in volume to equipment makers, are "likely to be about \$25 a disk in 1986, and to drop below \$12 by 1990."

Under the microscope, the unrecorded surface of Moth Eye resembles the multi-faceted cornea of a moth. The medium is non-erasable, although the company is working on an erasable version.

Its main feature is ease of production, using plastic injection moulding techniques already developed for compact audio and video disk manufacture.

It uses no exotic materials such as tellurium, employed in contemporary systems, which can degrade. Engineering samples in disk form have been delivered to potential customers since November 1984 and pilot production has just started.

Initially, the disks will be 130 mm in diameter, giving a capacity of 300 to 600 megabytes, depending on the recording technique. (A megabyte is a million characters and is equivalent to about 30 solid text pages of the Financial Times.)

Optical recording, because it makes extremely small marks on the medium with a laser beam, can put 40 times more data on a disk than conventional magnetic recording.

The potential market for the medium, most offerings of which have so far been non-erasable, is thought to be large in archival and semi-archival applications where the information flow is from store to user only.

Even in normal interactive computer systems, many feel the huge capacity will allow users simply to re-write records and ignore the old ones.

Verbatim (Kodak) in the US

Pilot production has just started of a new optical data recording medium, Geoffrey Charlsh reports

and several Japanese companies are developing erasable systems. IBM takes a neutral view. Its Mainz magnetic disk plant in Germany recently said BM had optical research programmes. But it is thought that for conventional computer storage, magnetic recording would remain dominant for a long time.

The optical market is already beginning to look crowded. Philips has banking and newspaper orders for its Megadisc system in Europe while Thomson CSF has supplied units to Integrated Automation for the US Library of Congress. Hitachi, Toshiba, Sony and Matsushita are all active in Japan and systems have been supplied to telephone companies.

In the US, Drexler, 3M, Kodak, RCA and Optical Storage International are all active. Drexler, for example, has licensed more than 20 large organisations including Pergamon Press in Britain.

Plasmon employed PA Technology, also of Melbourn, to develop Moth Eye and aspects of the work are the subject of a licence from National Physical Laboratory.

Highly magnified, the disk surface looks rather like an egg box. It acts in a similar way to the inside of acoustic test room, where giant egg boxes fixed to walls, ceiling and floor absorb the sound. Micro-wave absorber is another egg-box structure, where the dimensions of the many pyramids are arranged to absorb particular radio wavelengths in radar.

For the extremely short



Plasmon president Peter Hefet holding a Moth Eye optical disk in front of an injection moulding machine for making the disk blank

wavelengths of light, the pyramid dimensions have to be microscopic—the peaks are spaced by 0.25 micron (millionth of a metre) and are 0.1 micron deep.

When light strikes such a surface, only about 15 per cent is reflected, even when coated with a shiny metal. The rest is absorbed and turned into heat. To record, an extremely narrow laser beam is used to heat the plastic under the metal coating, forming a raised, flat area. The metal coating stays in place and the tiny flat spot becomes relatively reflective.

By turning the recording laser on and off extremely rapidly as the disk rotates, digital data is recorded in the form of concentric rings of short, bright dots and dashes. Similar to Morse Code, these represent digital data, which in turn can represent any kind of information.

To read the disk, another laser illuminates the tracks and a light sensitive device reads the on and off changes.

Production disks are made from a master, rather like gramophone records. The master starts as a glass disk which is first coated with photo-

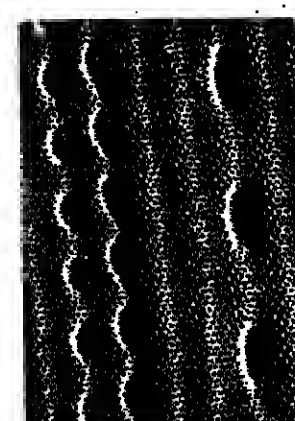
resist, a substance which breaks down and can be chemically washed away by a developer where it has been exposed to light.

The eggbox microstructure is made by creating a crossed grid pattern of two sets of very closely spaced lines of light at right angles to each other. The line structures are interference patterns produced by a laser interferometer in a proprietary equipment.

After the master disk has been developed, the bull and disk surface is turned into a metallic replica by means of electroplating. This is then used as a mould in injection moulding machines to produce polycarbonate disks at the rate of three a minute. Each production disk is given a highly consistent platinum coating by deposition in a vacuum.

In its work on erasable surfaces, Plasmon will continue to use similar techniques to couple light through to an underlying erasable medium based on principles of altering magnetised bits by means of light. The first samples have been made.

The pilot plant at Melbourn is capable of 10,000 disks a month, adequate for expected



Scanning electron microscope picture of bits on the disk surface at 10,000 times magnification

demand up to the second half of 1985. By then, says the company, a purpose-built plant will be operational in the US.

In addition, the company has a joint venture agreement with Kuraray Company of Osaka for manufacture and marketing in Japan. The unit will also provide a second source for the US and European markets.

Innovation from a hostile sea

BRITAIN'S SCRAMBLE for self-sufficiency in oil during the early 1970s marked the start of a series of specialised technological developments designed to cope with the deep and hostile waters surrounding the country's offshore wells.

Much of that technology is unique and has set the pace for such other offshore developments as off the east coast of Canada. Today more realistic predictions can be made about undersea oil reservoirs, better equipment extracts the oil more efficiently and more safely with fewer people required to face the unfriendly offshore conditions.

But while electronics was quickly adopted for use in some industries, it has not had an easy ride offshore.

The two big industries, oil and electronics, have taken some time to understand each other. The deeply conservative oilmen have been reluctant to try out new and possibly vulnerable computerised equipment. The computer industry presumed until recently that the oil industry would adapt to its hardware and not produce a tougher breed of machine more suited to rough offshore treatment.

The new generation of offshore drilling rigs and oil platforms show this transformation. The electronics in the early seventies were established but not in time to figure in the offshore control systems and instruments. Most of these on early platforms were electronic control rooms and entire wells covered with lights and switches.

The most recent offshore structures are today highly computerised. Electrically controlled tension leg platforms in the Hutton field monitor and scan thousands of operations, reducing a wall full of alarm signals to a flashing indicator on a screen plus an analysis of the trouble and often a suggested way to handle it.

Over the years an increasing number of independent functions on the offshore platforms have been integrated in terms of their electronic controls. A system which Ferranti will install on Total's two North Alwyn platforms, for example, will bring together fire and gas monitoring, data acquisition and production control as well as the emergency shut down procedures. The impact of electronics has spread rapidly through the oil companies today offering chief executives instant and comprehensive overviews of operations. The ability to gather, handle and transmit masses of data and for each department head to design the package of information needed has improved decision making.

Improved information gathering and presentation, for example, will allow operators to assess the impact which some new equipment might have on the overall performance of an offshore platform.

BP, in another application, has used software prepared by Selcon in London to produce an overall assessment of their worldwide exploration activities.

A conference on offshore electronics in Aberdeen recently paid special attention to the growth of "total" systems which in effect bring the offshore platform to the executive's desk.

Mr Lew Riding, an offshore electronics consultant based in London, says the trend of spending by operators has shifted from personnel to computers.

It has produced economies in unexpected places such as insurance. The interpretation of more data has helped produce the most comprehensive risk assessment for offshore developments. This may well start to show on the estimated 15 per cent of oil company budgets which are spent on insurance premiums.

Software has moved in with packages pooling vast amounts of relevant factors. Technica, a London-based company of consulting engineers has added the stringent Norwegian off-

EDITED BY ALAN CANE



Mark Meredith looks at how the scramble for UK oil self-sufficiency forged an alliance between deeply conservative oilmen and the electronics industry

shore safety regulations into a system which oil companies can use to compare their plans. Another industry working group used software to assess the risks involved evacuating an offshore platform.

Shell Expro, which represents the joint offshore activity of Shell and Esso in the North Sea, has one of the most extensive monitoring systems covering a network of offshore fields including those of other companies — which feed gas into the Flaga system destined for onshore processing.

A company attached to Heriot Watt University, Edinburgh, has produced a computer-based well test analysis system to help assess whether a new well is worth developing.

Britoil has prepared an engineering model which it believes will help it make more reliable estimates of the cost of building an offshore structure.

Such companies as Computest or Calsonic Well Control in Britain have applied electronics to the rugged environment of wellhead pressure measurement or planning the deviation of a drill.

Computer Aided engineering and Design have had a striking impact in offshore fabrication and planning. Working diagrams of the pipework on a platform can be stored and amended in a computer database rather than on several thousand drawings. The computer is likely to spot a potential collision between two pipes

systems earlier than the engineer.

The right combination of hardware and software will also allow the variable impact of government royalties, petroleum revenue tax and corporation tax to be assessed.

Artificial intelligence is waiting in the wings to help interpret masses of data to help make decisions. But the oilmen still want the final say over their operations.

Electronics, now it is established, and the offshore operators are going to have to go hand in hand into some even fiercer technological challenges presented by the next stage of offshore development: the move into deeper waters and the development of smaller, marginal fields.

Exploration and possible development into the north Atlantic will be in depths of 2,000 ft, three or four times the average depth of the North Sea and requiring such equipment as sea-bed production systems and highly sophisticated control and monitoring equipment operated from less hostile environments many miles away.

For the smaller oil fields—too expensive so far to develop—electronics will help reduce the costs. Again control systems will operate unmanned seabed equipment linking these wells with nearby production platforms or to specially equipped tankers which will plug into a wellhead and take on oil.

Software package aids efficiency



The Computest digitiser used in amercada scanning can be accurate to plus or minus one micron

COMPUTEST, one of a growing number of electronics companies involved in offshore development, found its niche in improving the accuracy of piece of equipment, the amercada.

The amercada is a mechanical gauge used to measure reservoir wellhead pressure. The measurement is crucial for oil companies in predicting the amount of oil which might be forced up by natural well pressure.

The tube-shaped gauge is lowered to the wellhead and left there for up to 360 hours, measuring the pressure increase as the wellhead valve is gradually opened. The gauge scratches a mark on a graphite chart, which is rotated by clockwork during the testing.

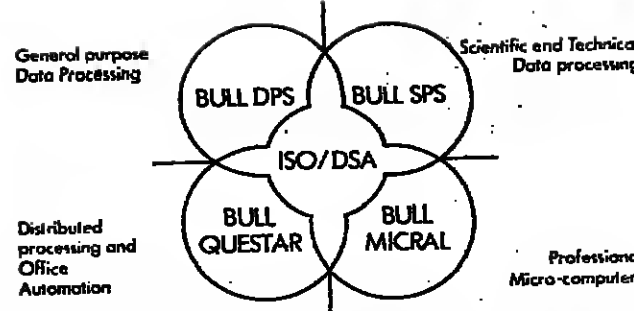
The problem for the engineers has been the behaviour of the amercada under heat and pressure: performance varies under different conditions.

Mr David Waddell, one of Computest's founders, has designed a software package which takes into consideration the amercada's variable performance and applied it to the readings fed in by the petroleum engineer analysing the graphite chart.

The correction factors have added to the efficiency of what the oil companies see as a tried and tested bit of equipment. Electronic pressure gauges are already probing this market, but in the view of Mr Mike Ward, Computest's marketing executive, electronics has still not been able to operate reliably at temperatures above 300 deg F.

The company has licensing agreement for its now system with Britoil and BP. Like many small companies in the oil business expansion is fast and at times worrying. They are working on a overdrift facility to open an office in Houston, Texas.

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|---------------------------|------|------|------|------|------|------|-------|------|-------|
| 341 | 1091 | 2351 | 0915 | 0907 | 0973 | 0962 | 10796 | 1069 | 12580 |
| 4 | 1996 | 3262 | 0917 | 0971 | 0946 | 0954 | 10290 | 1063 | 12587 |
| 9 | 3709 | 3264 | 0920 | 0972 | 0910 | 0968 | 10292 | 1065 | 12589 |
| 10 | 1100 | 3254 | 0923 | 0975 | 0913 | 0968 | 10294 | 1067 | 12591 |
| 14 | 1100 | 3254 | 0926 | 0978 | 0916 | 0968 | 10296 | 1069 | 12593 |
| 15 | 1100 | 3254 | 0929 | 0981 | 0919 | 0968 | 10298 | 1071 | 12595 |
| 19 | 1100 | 3254 | 0932 | 0984 | 0922 | 0968 | 10300 | 1073 | 12597 |
| 25 | 1100 | 3254 | 0935 | 0987 | 0925 | 0968 | 10302 | 1075 | 12599 |
| 26 | 1100 | 3254 | 0938 | 0990 | 0928 | 0968 | 10304 | 1077 | 12601 |
| 28 | 1100 | 3254 | 0941 | 0993 | 0931 | 0968 | 10306 | 1079 | 12603 |
| 34 | 1100 | 3254 | 0944 | 0996 | 0934 | 0968 | 10308 | 1081 | 12605 |
| 35 | 1100 | 3254 | 0947 | 0999 | 0937 | 0968 | 10310 | 1083 | 12607 |
| 36 | 1100 | 3254 | 0950 | 1002 | 0940 | 0968 | 10312 | 1085 | 12609 |
| 37 | 1100 | 3254 | 0953 | 1005 | 0943 | 0968 | 10314 | 1087 | 12611 |
| 38 | 1100 | 3254 | 0956 | 1008 | 0946 | 0968 | 10316 | 1089 | 12613 |
| 39 | 1100 | 3254 | 0959 | 1011 | 0949 | 0968 | 10318 | 1091 | 12615 |
| 40 | 1100 | 3254 | 0962 | 1014 | 0952 | 0968 | 10320 | 1093 | 12617 |
| 41 | 1100 | 3254 | 0965 | 1017 | 0955 | 0968 | 10322 | 1095 | 12619 |
| 42 | 1100 | 3254 | 0968 | 1020 | 0958 | 0968 | 10324 | 1097 | 12621 |
| 43 | 1100 | 3254 | 0971 | 1023 | 0961 | 0968 | 10326 | 1099 | 12623 |
| 44 | 1100 | 3254 | 0974 | 1026 | 0964 | 0968 | 10328 | 1101 | 12625 |
| 45 | 1100 | 3254 | 0977 | 1029 | 0967 | 0968 | 10330 | 1103 | 12627 |
| 46 | 1100 | 3254 | 0980 | 1032 | 0970 | 0968 | 10332 | 1105 | 12629 |
| 47 | 1100 | 3254 | 0983 | 1035 | 0973 | 0968 | 10334 | 1107 | 12631 |
| 48 | 1100 | 3254 | 0986 | 1038 | 0976 | 0968 | 10336 | 1109 | 12633 |
| 49 | 1100 | 3254 | 0989 | 1041 | 0979 | 0968 | 10338 | 1111 | 12635 |
| 50 | 1100 | 3254 | 0992 | 1044 | 0982 | 0968 | 10340 | 1113 | 12637 |
| 51 | 1100 | 3254 | 0995 | 1047 | 0985 | 0968 | 10342 | 1115 | 12639 |
| 52 | 1100 | 3254 | 0998 | 1050 | 0988 | 0968 | 10344 | 1117 | 12641 |
| 53 | 1100 | 3254 | 1001 | 1053 | 0991 | 0968 | 10346 | 1119 | 12643 |
| 54 | 1100 | 3254 | 1004 | 1056 | 0994 | 0968 | 10348 | 1121 | 12645 |
| 55 | 1100 | 3254 | 1007 | 1059 | 0997 | 0968 | 10350 | 1123 | 12647 |
| 56 | 1100 | 3254 | 1010 | 1062 | 1000 | 0968 | 10352 | 1125 | 12649 |
| 57 | 1100 | 3254 | 1013 | 1065 | 1003 | 0968 | 10354 | 1127 | 12651 |
| 58 | 1100 | 3254 | 1016 | 1068 | 1006 | 0968 | 10356 | 1129 | 12653 |
| 59 | 1100 | 3254 | 1019 | 1071 | 1009 | 0968 | 10358 | 1131 | 12655 |
| 60 | 1100 | 3254 | 1022 | 1074 | 1012 | 0968 | 10360 | 1133 | 12657 |
| 61 | 1100 | 3254 | 1025 | 1077 | 1015 | 0968 | 10362 | 1135 | 12659 |
| 62 | 1100 | 3254 | 1028 | 1080 | 1018 | 0968 | 10364 | 1137 | 12661 |
| 63 | 1100 | 3254 | 1031 | 1083 | 1021 | 0968 | 10366 | 1139 | 12663 |
| 64 | 1100 | 3254 | 1034 | 1086 | 1024 | 0968 | 10368 | 1141 | 12665 |
| 65 | 1100 | 3254 | 1037 | 1089 | 1027 | 0968 | 10370 | 1143 | 12667 |
| 66 | 1100 | 3254 | 1040 | 1092 | 1030 | 0968 | 10372 | 1145 | 12669 |
| 67 | 1100 | 3254 | 1043 | 1095 | 1033 | 0968 | 10374 | 1147 | 12671 |
| 68 | 1100 | 3254 | 1046 | 1098 | 1036 | 0968 | 10376 | 1149 | 12673 |
| 69 | 1100 | 3254 | 1049 | 1101 | 1039 | 0968 | 10378 | 1151 | 12675 |
| 70 | 1100 | 3254 | 1052 | 1104 | 1042 | 0968 | 10380 | 1153 | 12677 |
| 71 | 1100 | 3254 | 1055 | 1107 | 1045 | 0968 | 10382 | 1155 | 12679 |
| 72 | 1100 | 3254 | 1058 | 1110 | 1048 | 0968 | 10384 | 1157 | 12681 |
| 73 | 1100 | 3254 | 1061 | 1113 | 1051 | 0968 | 10386 | 1159 | 12683 |
| 74 | 1100 | 3254 | 1064 | 1116 | 1054 | 0968 | 10388 | 1161 | 12685 |
| 75 | 1100 | 3254 | 1067 | 1119 | 1057 | 0968 | 10390 | 1163 | 12687 |
| 76 | 1100 | 3254 | 1070 | 1122 | 1060 | 0968 | 10392 | 1165 | 12689 |
| 77 | 1100 | 3254 | 1073 | 1125 | 1063 | 0968 | 10394 | 1167 | 12691 |
| 78 | 1100 | 3254 | 1076 | 1128 | 1066 | 0968 | 10396 | 1169 | 12693 |
| 79 | 1100 | 3254 | 1079 | 1131 | 1069 | 0968 | 10398 | 1171 | 12695 |
| 80 | 1100 | 3254 | 1082 | 1134 | 1072 | 0968 | 10400 | 1173 | 12697 |
| 81 | 1100 | 3254 | 1085 | 1137 | 1075 | 0968 | 10402 | 1175 | 12699 |
| 82 | 1100 | 3254 | 1088 | 1140 | 1078 | 0968 | 10404 | 1177 | 12701 |
| 83 | 1100 | 3254 | 1091 | 1143 | 1081 | 0968 | 10406 | 1179 | 12703 |
| 84 | 1100 | 3254 | 1094 | 1146 | 1084 | 0968 | 10408 | 1181 | 12705 |
| 85 | 1100 | 3254 | 1097 | 1149 | 1087 | 0968 | 10410 | 1183 | 12707 |
| 86 | 1100 | 3254 | 1100 | 1152 | 1090 | 0968 | 10412 | 1185 | 12709 |
| 87 | 1100 | 3254 | 1103 | 1155 | 1093 | 0968 | 10414 | 1187 | 12711 |
| 88 | 1100 | 3254 | 1106 | 1158 | 1096 | 0968 | 10416 | 1189 | 12713 |
| 89 | 1100 | 3254 | 1109 | 1161 | 1099 | 0968 | 10418 | 1191 | 12715 |
| 90 | 1100 | 3254 | 1112 | 1164 | 1102 | 0968 | 10420 | 1193 | 12717 |
| 91 | 1100 | 3254 | 1115 | 1167 | 1105 | 0968 | 10422 | 1195 | 12719 |
| 92 | 1100 | 3254 | 1118 | 1170 | 1108 | 0968 | 10424 | 1197 | 12721 |
| 93 | 1100 | 3254 | 1121 | 1173 | 1111 | 0968 | 10426 | 1199 | 12723 |
| 94 | 1100 | 3254 | 1124 | 1176 | 1114 | 0968 | 10428 | 1201 | 12725 |
| 95 | 1100 | 3254 | 1127 | 1179 | 1117 | 0968 | 10430 | 1203 | 12727 |
| 96 | 1100 | 3254 | 1130 | 1182 | 1120 | 0968 | 10432 | 1205 | 12729 |
| 97 | 1100 | 3254 | 1133 | 1185 | 1123 | 0968 | 10434 | 1207 | 12731 |
| 98 | 1100 | 3254 | 1136 | 1188 | 1126 | 0968 | 10436 | 1209 | 12733 |
| 99 | 1100 | 3254 | 1139 | 1191 | 1129 | 0968 | 10438 | 1211 | 12735 |
| 100 | 1100 | 3254 | 1142 | 1194 | 1132 | 0968 | 10440 | 1213 | 12737 |
| 101 | 1100 | 3254 | 1145 | 1197 | 1135 | 0968 | 10442 | 1215 | 12739 |
| 102 | 1100 | 3254 | 1148 | 1200 | 1138 | 0968 | 10444 | 1217 | 12741 |
| 103 | 1100 | 3254 | 1151 | 1203 | 1141 | 0968 | 10446 | 1219 | 12743 |
| 104 | 1100 | 3254 | 1154 | 1206 | 1144 | 0968 | 10448 | 1221 | 12745 |
| 105 | 1100 | 3254 | 1157 | 1209 | 1147 | 0968 | 10450 | 1223 | 12747 |
| 106 | 1100 | 3254 | 1160 | 1212 | 1150 | 0968 | 10452 | 1225 | 12749 |
| 107 | 1100 | 3254 | 1163 | 1215 | 1153 | 0968 | 10454 | 1227 | 12751 |
| 108 | 1100 | 3254 | 1166 | 1218 | 1156 | 0968 | 10456 | 1229 | 12753 |
| 109 | 1100 | 3254 | 1169 | 1221 | 1159 | 0968 | 10458 | 1231 | 12755 |
| 110 | 1100 | 3254 | 1172 | 1224 | 1162 | 0968 | 10460 | 1233 | 12757 |
| 111 | 1100 | 3254 | 1175 | 1227 | 1165 | 0968 | 10462 | 1235 | 12759 |
| 112 | 1100 | 3254 | 1178 | 1230 | 1168 | 0968 | 10464 | 1237 | 12761 |
| 113 | 1100 | 3254 | 1181 | 1233 | 1171 | 0968 | 10466 | 1239 | 12763 |
| 114 | 1100 | 3254 | 1184 | 1236 | 1174 | 0968 | 10468 | 1241 | 12765 |
| 115 | 1100 | 3254 | 1187 | 1239 | 1177 | 0968 | 10470 | 1243 | 12767 |
| 116 | 1100 | 3254 | 1190 | 1242 | 1180 | 0968 | 10472 | 1245 | 12769 |
| 117 | 1100 | 3254 | 1193 | 1245 | 1183 | 0968 | 10474 | 1247 | 12771 |
| 118 | 1100 | 3254 | 1196 | 1248 | 1186 | 0968 | 10476 | 1249 | 12773 |
| 119 | 1100 | 3254 | 1199 | 1251 | 1189 | 0968 | 10478 | 1251 | 12775 |
| 120 | 1100 | 3254 | 1202 | 1254 | 1192 | 0968 | 10480 | 1253 | 12777 |
| 121 | 1100 | 3254 | 1205 | 1257 | 1195 | 0968 | 10482 | 1255 | 12779 |
| 122 | 1100 | 3254 | 1208 | 1260 | 1198 | 0968 | 10484 | 1257 | 12781 |
| 123 | 1100 | 3254 | 1211 | 1263 | 1201 | 0968 | 10486 | 1259 | 12783 |
| 124 | 1100 | 3254 | 1214 | 1266 | 1204 | 0968 | 10488 | 1261 | 12785 |
| 125 | 1100 | 3254 | 1217 | 1269 | 1207 | 0968 | 10490 | 1263 | 12787 |
| 126 | 1100 | 3254 | 1220 | 1272 | 1210 | 0968 | 10492 | 1265 | 12789 |
| 127 | 1100 | 3254 | 1223 | 1275 | 1213 | 0968 | 10494 | 1267 | 12791 |
| 128 | 1100 | 3254 | 1226 | 1278 | 1216 | 0968 | 10496 | 1269 | 12793 |
| 129 | 1100 | 3254 | 1229 | 1281 | 1219 | 0968 | 10498 | 1271 | 12795 |
| 130 | 1100 | 3254 | 1232 | 1284 | 1222 | 0968 | 10500 | 1273 | 12797 |
| 131 | 1100 | 3254 | 1235 | 1287 | 1225 | 0968 | 10502 | 1275 | 12799 |
| 132 | 1100 | 3254 | 1238 | 1290 | 1228 | 0968 | 10504 | 1277 | 12801 |
| 133 | 1100 | 3254 | 1241 | 1293 | 1231 | 0968 | 10506 | 1279 | 12803 |
| 134 | 1100 | 3254 | 1244 | 1296 | 1234 | 0968 | 10508 | 1281 | 12805 |
| 135 | 1100 | 3254 | 1247 | 1299 | 1237 | 0968 | 10510 | 1283 | 12807 |
| 136 | 1100 | 3254 | 1250 | 1302 | 1240 | 0968 | 10512 | 1285 | 12809 |
| 137 | 1100 | 3254 | 1253 | 1305 | 1243 | 0968 | 10514 | 1287 | 12811 |
| 138 | 1100 | 3254 | 1256 | 1308 | 1246 | 0968 | 10516 | 1289 | 12813 |
| 139 | 1100 | 3254 | 1259 | 1311 | 1249 | 0968 | 10518 | 1291 | 12815 |
| 140 | 1100 | 3254 | 1262 | 1314 | 1252 | 0968 | 10520 | 1293 | 12817 |
| 141 | 1100 | 3254 | 1265 | 1317 | 1255 | 0968 | 10522 | 1295 | 12819 |
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| 144 | 1100 | 3254 | 1274 | 1326 | 1264 | 0968 | 10528 | 1301 | 12825 |
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| 146 | 1100 | 3254 | 1280 | 1332 | 1270 | 0968 | 10532 | 1305 | 12829 |
| 147 | 1100 | 3254 | 1283 | 1335 | 1273 | 0968 | 10534 | 1307 | 12831 |
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US URANIUM INDUSTRY

Uranium mining group finds a solution to cheap prices

BY MARY FRINGS IN DALLAS

A MAN who leads a management buyout of the same company twice must be convinced it has a lot going for it. Mr. Ray Larson runs a uranium mining operation in Texas, at a time when the US uranium industry as a whole is so battered by the impact of cheap imports, the drawing down of inventories and the cancellation of nuclear reactor orders that in September Mr. John Herrington, Energy Secretary, declared it non-viable.

What makes Uranium Resources Incorporated (URI), and a handful of similar companies better able to survive than the rest is a cheaper, quicker and more efficient process of leaching out concentrated uranium oxide from an ore-bearing aquifer, rather than sinking a conventional mine shaft, digging the ore out of the ground and then milling it.

Although the use of acids for leaching out copper is historically well known, *in situ* solution mining of uranium is relatively new, with the first commercial plant coming on-stream in 1975. US companies Western Nuclear and Phelps Dodge have been associated with a successful pilot plant in Australia, but as far as is known commercial production using this technique has gone ahead only in the US and mainly in Texas. The process accounts for 20-30 per cent of total US uranium output of some 12m lb a year.

Solution mining is economically attractive because it requires less capital and fewer people, is highly efficient (in

most cases recovering 75 per cent of the uranium in place), and can be used in situations where the ore body is too deep or too small for conventional surface mining.

It is also environmentally attractive, since it does not destroy the land and stringent US state laws require restoration of the underground water to its natural chemical composition.

Basically, the leaching process involves pumping water from an ore-bearing aquifer, adding oxygen and bicarbonate through a system of injection and extraction wells. The uranium-bearing solution is then passed through ion exchange columns at the surface and concentrated into a dust-free slurry known as yellowcake, which is sent to a conversion plant for processing into uranium hexafluoride. This must be enriched by radioactivity before it can be used to fuel nuclear reactors.

Mr. Larson, a banker with Security Pacific before joining (in 1971) R. L. Burns, a publicly-quoted energy company with interests in coal, oil and gas, first came across solution mining for uranium in 1976. He went to Phoenix, Arizona, to look at a company called Nuclear Dynamics, which had been introduced by a stockbroker as a possible investment, but which had pretty much fallen by the wayside.

In the course of this investigation he hired two consultants, and the more he learned about solution mining the more he became intrigued by it. Finally

he recommended to fellow directors of R. L. Burns that the company should form its own uranium division, and concluded his presentation with the argument that "in a bad market, a good solution mining company will be the last to go broke." Today he adds ruefully: "I hope that wasn't prophetic."

URI was set up in 1977 and Mr. Larson became chairman of the board and executive president. He led the first management buyout when the parent company (R. L. Burns) was acquired by Consolidated Oil and Gas of Denver, Colorado in 1978, but in August 1981 there was a change of control, with URI being sold to a large group so the management traded their company for stock in Nucorp Energy Incorporated.

A year later, however, Nucorp was caught in the oil crunch and filed for protection and reorganization under Chapter 11 of the US Bankruptcy Laws. Most of its 27 subsidiaries went into liquidation, but in December 1982 URI's stock was acquired by its original parent — which by then had changed its name to Petro Energy Corporation — with an option for the management to buy it back. In December 1983, when the US uranium industry was going rapidly downhill, they did just that.

"Because of the *in situ* mining technique," says Mr. Larson, "we are confident that, given a reasonable quality ore body, we can be marginally competitive in the world market, even at \$16 a pound" (the current spot market price for uranium).

URI has produced uranium on a commercial scale from three *in situ* mining operations in south Texas, one of them for a subsidiary of Tenneco which has taken it over on completion of the contract. The other two plants, one wholly-owned and the other a joint venture with Coastal Corporation, are undergoing restoration, using reverse osmosis to filter out dissolved salts and return the underground water to pre-mining conditions. Once the surface structures have been taken away the land will revert to its original use.

Restoration has been completed at the site of the wholly-owned North Platte pilot plant project in Wyoming, where a multi-million pound ore-body has been discovered at depths of 300 ft to 600 ft. However, the ore is not of the highest grade and commercial production may not be viable unless the market improves to the \$20 to \$25 a pound range.

Under Wyoming state law, which differs from that of Texas, a pilot plant operation must be signed off by the Department of Health and the Water Commission before production permits can be applied for.

There are much better prospects at Kingsville Dome in south Texas, where URI's partner in a 3,000 to 4,000 acre property is Phelps Dodge. The company is in the process of obtaining permits, and this project will definitely go ahead, according to Mr. Larson, with a target date of the first quarter of 1987 for commercial production.

Boost for S. Korean venture capital industry

BY STEVEN B. BUTLER IN SEOUL

AN INJECTION of fresh capital some of it from overseas, is set to bolster South Korea's fledgling venture capital industry, in an effort to provide more funding for small companies in the country.

Last month Credit Agricole of France signed an agreement to purchase a minority equity interest of 20m won (\$250,000) in the Korea Development Investment Corporation (KDIC), Korea's only true venture capital fund.

Although the amount is small, it follows a recent agreement

with American Can to invest 750m won in the company.

Further discussions are under way with Westinghouse and Japan Associated Finance Company (Jafco), a subsidiary of Nomura Securities, that would raise KDIC's paid-up capital from a current 7.5bn won to 10bn won, possibly by the end of the year. The expansion of KDIC's capital is part of a broader effort by the Ministry of Finance to encourage the development of small, high-technology companies as a counterbalance to the huge con-

glomerates which dominate the Korean economy.

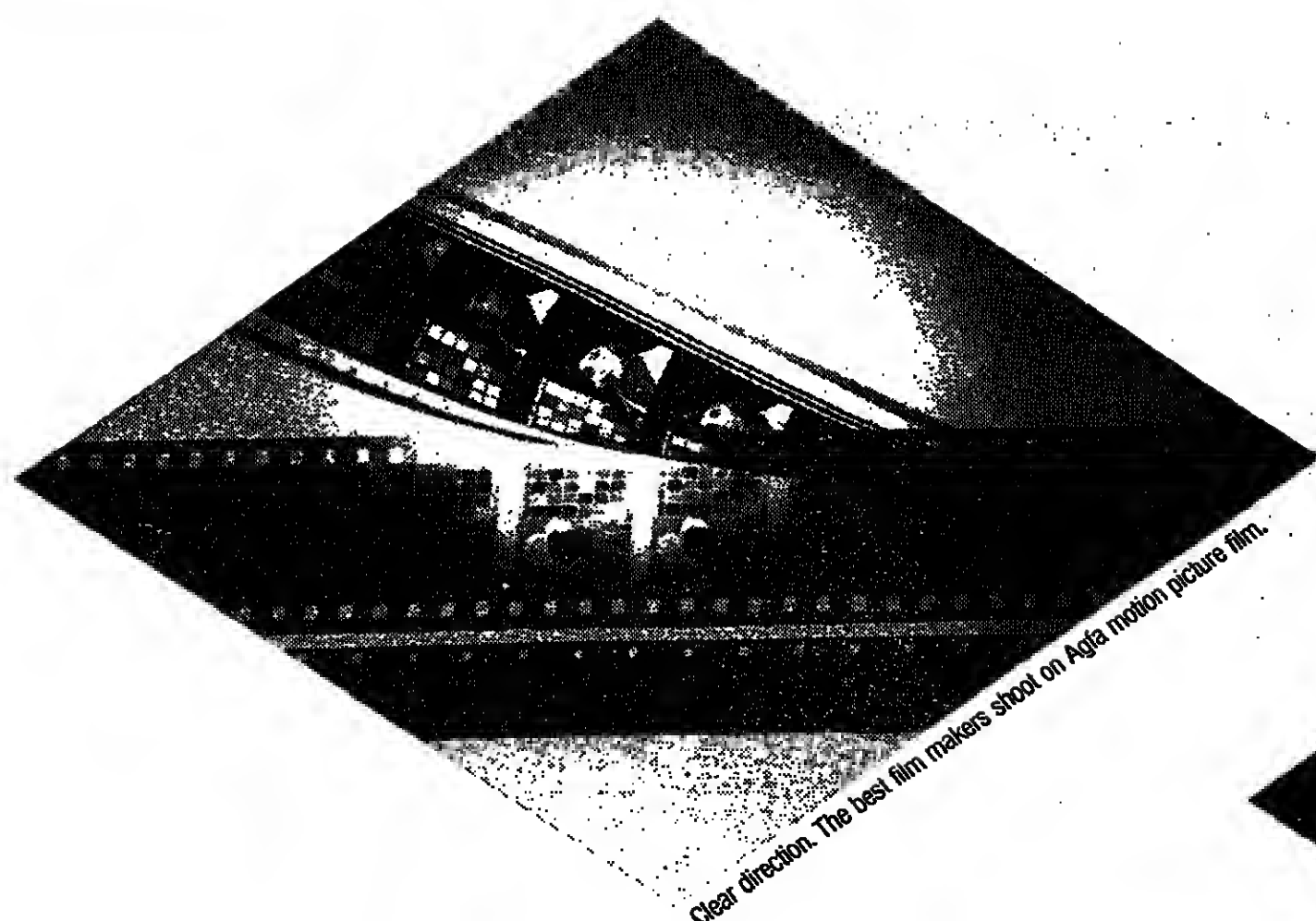
A majority of KDIC's shares is held by seven short-term financial companies in Korea. The International Finance Corporation of the World Bank, the Asian Development Bank, and DEG, the German finance company, each holds a minority interest.

The Ministry is considering the establishment of three venture business funds, for a total of 10bn won, that would be listed on the Korea stock exchange, with shares sold both

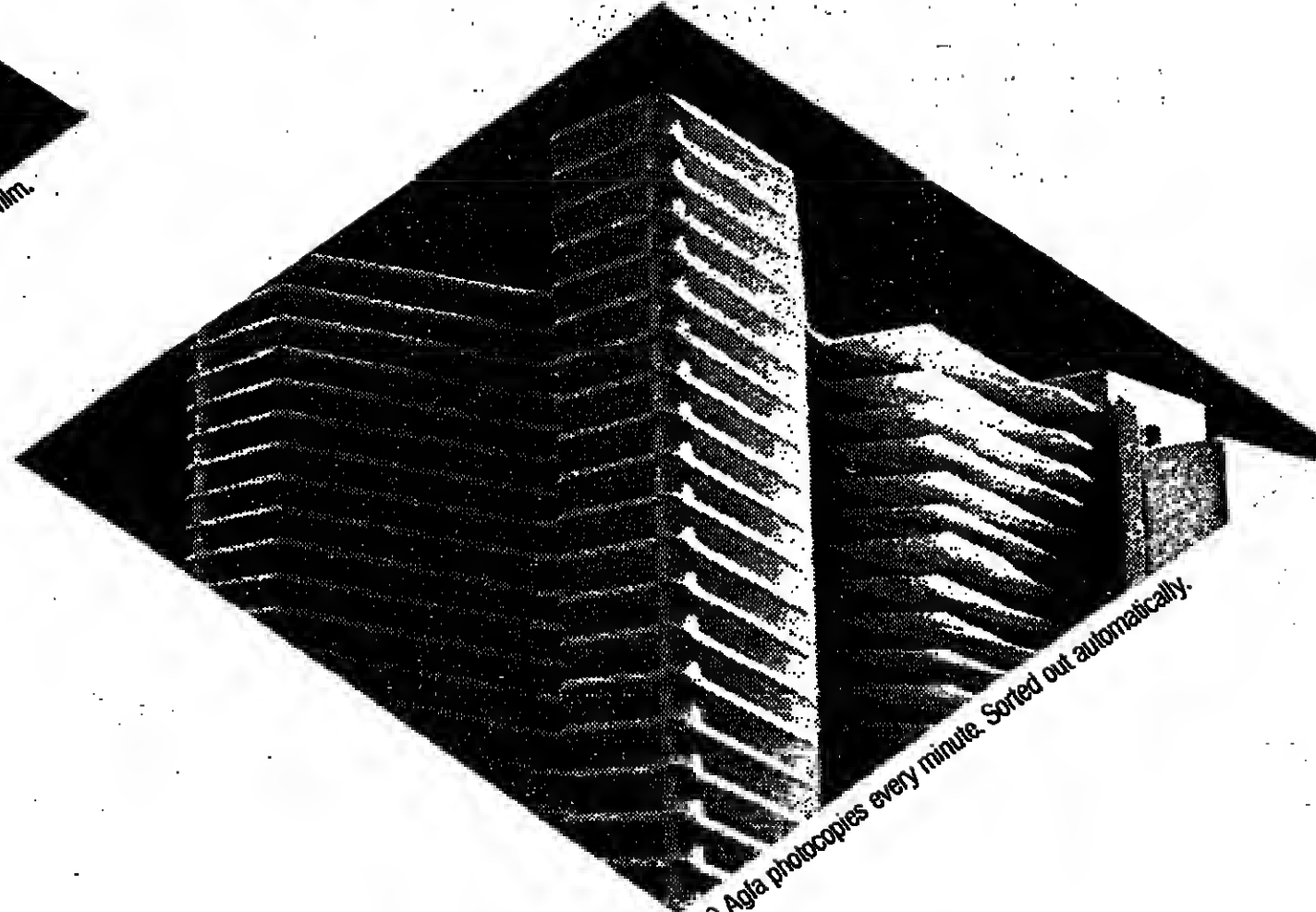
domestically and overseas.

Baring Brothers has reached an advanced stage of discussions with the Korea Investment Trust Company about setting up such a fund. Daehan Investment Trust has been talking to Jafco. But a company official said that they had been unable to solve certain tax and regulatory problems from the Japanese side, and that Daehan might have to seek another foreign partner. Citizens' Investment Trust is still drawing up the structure of its prospective fund.

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THE MANAGEMENT PAGE

Project management

Tunnelling through a mass of complexity

Joan Gray on the challenges of the Cairo Wastewater contract

"THE TUNNELLING'S the easy bit," says John Hudspeth, with a wave of the arm round the corner of the abattoir in old Cairo where he is to sink a new sewer shaft roughly the size of an underground railway tunnel.

"It's working in all this that's difficult," he adds, with a gesture towards a shelf of freestone covered camels' heads. Hudspeth is project manager on Contract 12 of the £2.57bn Greater Cairo Wastewater project, the largest public health engineering scheme in the world.

The contract is part of the £200m British-backed first phase of the project on the east bank of the Nile. This involves building a 16 km long tunnel seven BL minis—through the heart of Cairo, together with and water treatment plants to meet the city's needs by 1990.

It is a type of project which presents an unusual array of complexities and problems. Considerable negotiating skills were necessary to put together a sophisticated package of public and private sector finances, difficulties faced by equipment in a selection of particularly colourful locations and there is a need to ensure that suitable high-performance materials are available in a country where they may not yet be manufactured.

The project also illustrates the strategic challenge presented by the need to structure a consortium of otherwise competing companies so that they work together successfully in the joint venture.

Cairo's present sewerage system is grossly overloaded. It was designed 70 years ago to serve the needs of only one million people, for a city that now has a population of 10m.

The signs of trouble are unmistakable everywhere in the city: suspiciously large dark puddles in streets which get only a couple of days' rain a year; ancient cypripis awash with raw sewage; traffic jammed by large blue dredging

machines over every manhole cover trying to tackle the unenviable task of keeping the sewers clear; and Cairo's infant mortality rate, ten times as high as that in any western city.

Although the Government has been only too aware of the problems, it was unable to afford a new sewerage system until it was offered aid from the British and US Governments—conditional on the work involving companies from both countries. John Hudspeth's sewer is part of the British-aided section on the east bank of the Nile. He is responsible for a £85m contract which involves building a 3.3 km long section of main sewer tunnel, 4 m wide, and its associated collectors, 17 m deep under the heart of old Cairo.

Lowest bid

The contract was awarded to the Anglo Egyptian Cairo Wastewater Consortium, the grouping that put in the lowest bid. It consists of four British companies—Balfour Beatty, Cementation International, Edmund Nuttall and Tarmac Overseas—and a local partner, Arab Contractors, the largest construction company in Egypt. Hudspeth is a Tarmac man, a tall rangy expatriate with a deep-lined tan, faded blue eyes and quickly tolerant sense of humour to testify to his 25 years working overseas.

He works from a headquarters hut at Fostat, overlooked by the mosques and minarets of the old citadel, and beside a burning, smoking rubbish tip. Packs of wild dogs and litters of wild pigs scavenge constantly among the refuse. The location won him much sympathy from his colleagues at the start. "The smell's not too bad," he says. "Most of the time she's pretty good, depending on the wind—and I reckon I've got the best working area in Cairo now because you can get more space and extra land to work on quite easily whenever you want."

Getting access to working sites is a major problem. On Contract 6 for example—a £40.5m sewer digging project

being carried out jolotly by Tarmac and Arab Contractors—the contractors were ready to start work in September 1984.

A year later they have still been unable to begin work. For no sooner did they try to move on to the site allocated by the consultants in overall charge of the wastewater scheme—the AMBRIC group, which reports to the Ministry of Housing and Utilities—than the Department of Antiquities called a halt.

What appeared to be just another rubbish dump overlooked by tenements and with goats tethered among the derelict cars was in fact the site of the ancient city of Owa, the deeply buried walls of which can now be seen emerging from the freshly-excavated rubbish.

Meanwhile, the contractors are still negotiating a new work area and a new line for the culvert to avoid the ancient remains. They hope to make up lost time later by bringing in additional concrete-laying teams and are negotiating on the extra costs.

Hudspeth has not had to encounter any such esoteric problems—yet. He is still in the very earliest stages of his contract—awarded in August—and is still setting up sites for work to start on the tunnel access

This involves first exposing the electricity cables, water pipes, gas mains and old sewer tunnels which all have to be diverted by the local authorities before work can begin. This is a process which in itself requires careful negotiation with them and loans of useful equipment for their own tasks before the diversion can be undertaken.

He has also had to disrupt the local traders, who sell everything from tea to skins of wire wool, and negotiate with those whose stalls would have been crossed by the hoardings delineating his site boundary. This is a process which has required considerable tact and patience and diversion of the site boundary where necessary—and he now has free tea and a chair brought to him by a

thankful local proprietor.

Once the site is clear and work starts, excavation takes place in compressed air at a pressure of approximately 30 psi—comparable to the inside of a car tyre—to keep the water out when digging in the wet sandy soil beside the Nile.

Sinking shafts and tunnelling with men working in compressed air involves using techniques similar to those required to stop divers getting the bends, and requires sites in the heart of Cairo to be fitted with air locks and decompression chambers.

"It's easy for John to say the tunnelling is the simple bit, but that's because we've done it all on our contract first," said Peter Mason. He is senior planning engineer on the Wastewater Consortium's contract 3, where work started in February. Contract 3 is a £94m job tunnelling a 4 km long section of the 5m wide main sewer, 21m below the city southwards from America's pumping station.

Mason is currently sinking the deep triple shaft—it involves excavating up to 40 ten-ton truck loads of sand an hour—down which the giant Bentonite Shield tunnelling machines, 8m across and made by NEI Clark Chapman of Leeds at a cost of £4m, will be lowered to start work.

The Wastewater Consortium's tunnelling contracts are examples of an increasingly common pattern in international contracting.

Not only have the contractors had to get involved in aid packages and complicated financing deals to get the work, but they are also working in joint ventures to share the risks involved and pool the skills required for such a complicated undertaking.

In the Wastewater Consortium, the problem of potential rivalry between people from different companies who may be in fierce competition on other contracts is tackled by seconding all staff to the Consortium, with a common structure of salaries and bonuses.

Work together

On contract 3, for example, Peter Mason is a Balfour Beatty man and the engineering manager, David Court, comes from Edmund Nuttall.

"You have to accept that you're more or less leaving your company for the project and give your loyalty to that," explains Court. "But in tunnelling you often already know each other anyway." He and Peter Mason, for example, had already worked together on their previous job, building the £80m Victoria Dam in Sri Lanka.

"You do have to look for suitable personalities to work overseas," he adds. "You need to be extrovert, but tunnelling engineers tend to be one of the lads anyway."

A prime requirement of inter-

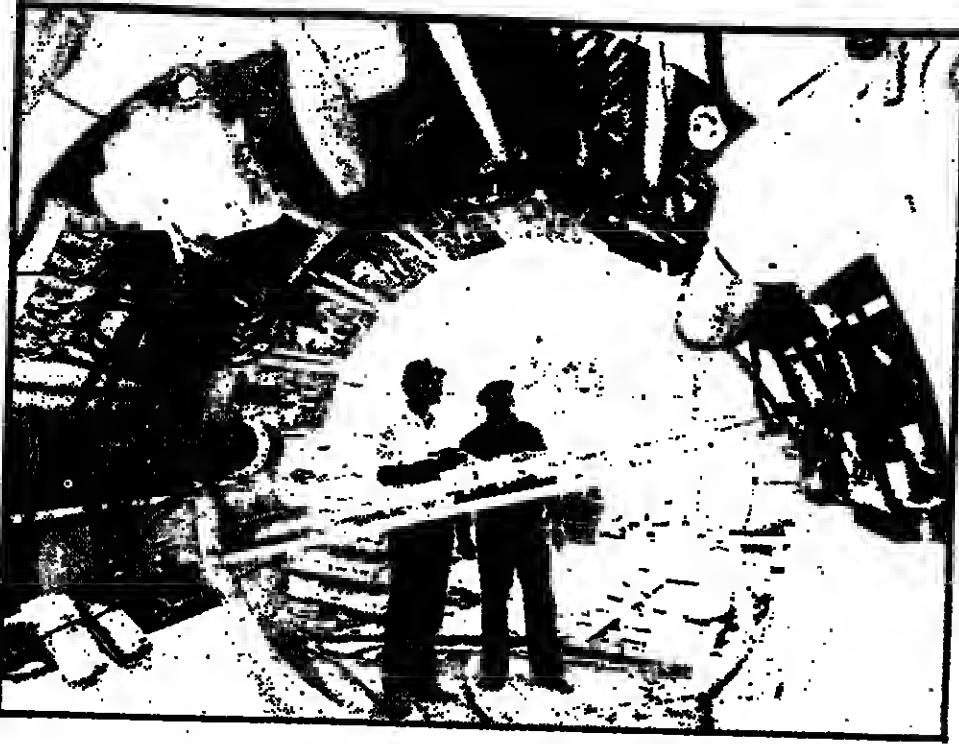
national contractors is that they be the sort of person who can cope with rats in the bath or cartloads of fresh-killed camel skins with equanimity—or smile courteously when presented with horned slugs, mountain frogs or terrapins in the soup when dining in the best restaurants while touting for work in China.

They also have to keep a careful eye on the details of the contract's progress. A matter currently vexing the Wastewater Consortium contractors is that the sewer tunnels have to be lined with acid resistant bricks to prevent the concrete being eaten away by sludge gases.

This requires 6m bricks on Contract 3 and 4m bricks on Contract 12—but no brickworks in Egypt can yet make bricks to the required specification.

"We keep traipsing round the brickworks testing bricks and trying to persuade the manufacturers to buy the equipment needed to make them," says Wastewater Consortium director George Cummings. This is a politically sensitive manoeuvre, as Egypt's brickworks cannot be seen to be unable to provide the bricks for its own new sewers.

"It's a problem," says Cummings. "The tunnelling we know we can do, but it's the brickwork that will make or break the contracts. But at least we know it's a problem. And it's the problems you know that are never the worst."



A Delcon tunnelling machine which drives branch sewers for the Greater Cairo Wastewater project

Management abstracts

Air couriers. International Management Europe (UK), July 85 (4 pages)

Surveys the international air parcels/courier market, and looks at the activities and future plans of some of the major competitors—the U.S.-based DHL, Emery Freight, and Federal Express.

Management and public policy in plant closure. D. Yoder & P. D. Staudohar in *Sloan Management Review* (U.S.), Summer 85 (13 pages)

Discusses the impact plant closures have on communities; workers and communities; draws examples from General Motors and Ford in California. Examines how each dealt with the closure, compares the approach in terms of ensuring income security, relocation to other plants, training and placement, and highlights differences (most to the credit of Ford). Argues for a three-month advance notification of closure is given to workers (GM workers were only given three weeks), but considers that voluntary compliance with codes covering severance pay, health insurance and training opportunities is sufficient.

Managing computerphobia. T. C. Little in *Supervisory Management* (U.S.), June 85 (5 pages). Highlights the fears that many managers, supervisors, and clerical staff have about working with computers, the changes to working practices which come in their wake, and identifies their symptoms. Suggests corrective action such as better training and education, ensuring that instruction manuals are easy to follow, and paying proper attention to physical working conditions.

Entrepreneurial careers for judged middle managers. M. Twartz in *Rydgies* (Australia), May 85 (1 page)

Examines ways to prevent employees with long tenure of one position from "retiring on the job"; comments IBM's creation of entrepreneurial "independent business units" to offer such people a challenge; suggests also the idea of releasing them (or two days a week to pursue a second career).

Incentives for R&D activities. P. Haug & R. E. Pizzi in *R&D Management* (UK), July 85 (9 pages)

A survey of fifteen U.S. electronics companies operating in Scotland concludes that government grants to encourage R&D

and new technology, which are typically 10-50 per cent of project costs, are not shifting the companies toward more high technology but are being used to reduce the cost of activities which multinational parents had already decided on.

Purchasing practices in the UK. B. G. Dale & R. H. Powley in *Journal of Purchasing and Materials Management* (U.S.), Spring 85 (18 pages)

Analyses five anonymous UK manufacturing organisations, employing between 100 and 1,300 staff, in terms of their purchasing organisations, the scope/responsibilities of the purchasing function, and the measures used to monitor purchasing performance (finding that accounting controls dominating that vendor rating schemes are not used, and sees the function, in every case, operating on a short-term crisis basis to the total exclusion of long-term planning).

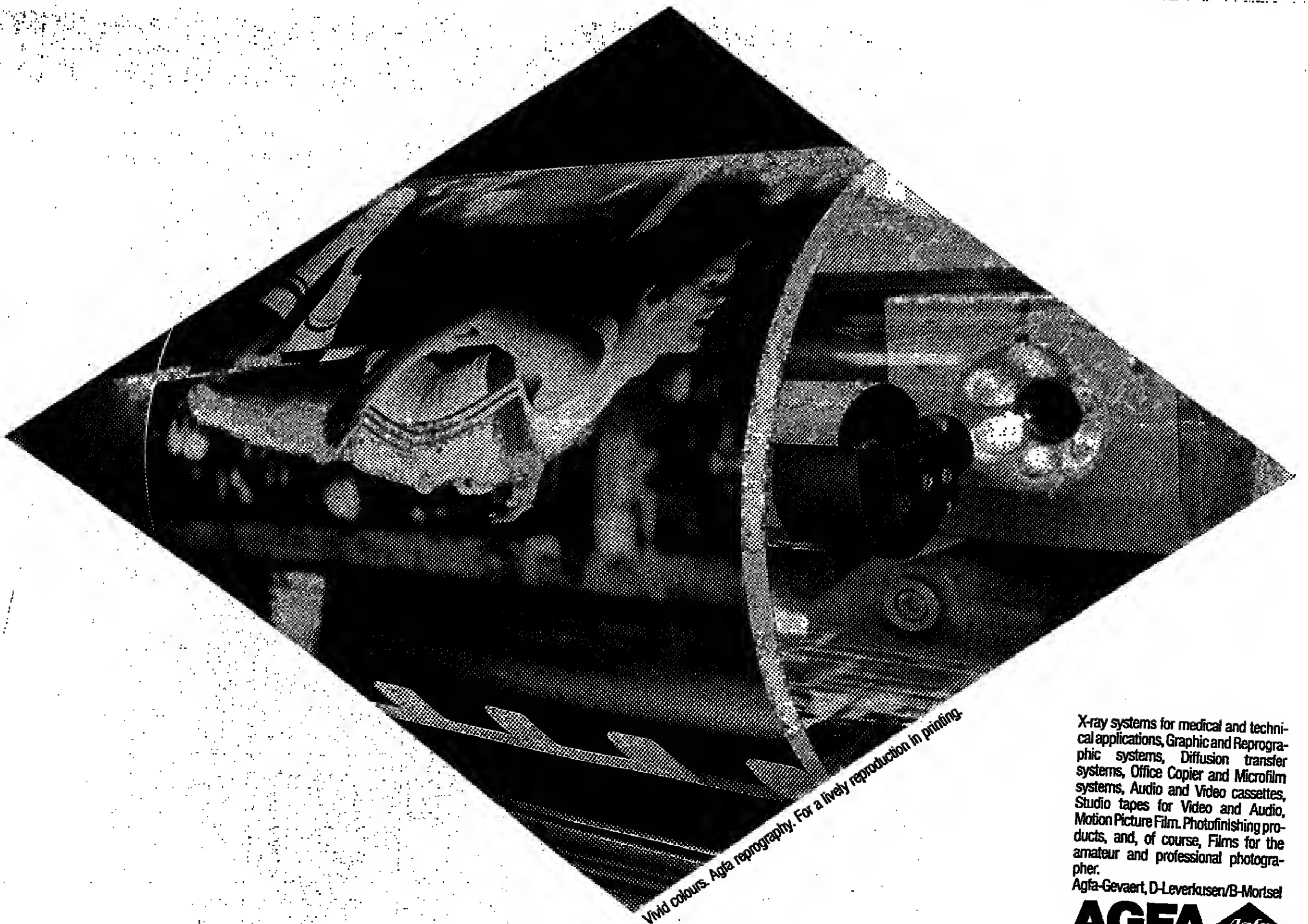
Training men to work with women. M. Fedler & R. Fritchie in *Women in Management Review* (UK), Summer 85 (10 pages)

Reflects upon the difficulties in getting men to accept equal working roles for women; sees that accounting controls dominating that vendor rating schemes are not used, and sees the function, in every case, operating on a short-term crisis basis to the total exclusion of long-term planning.

Who audits the auditors? H. Wilkinson and others in *Public Finance and Accountability* (UK), 19 July 1985 (3 pages)

Two related articles: (1) tells how the Audit Commission (which appoints and pays auditors, but is not composed of audit clients) monitors the performance of local government auditors by reviewing audit input, operation and output; (2) describes the criteria accountants and management consultants, Deloitte, Haskins and Sells, use to measure client internal audit department performance.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at £4 each (including VAT and p + p: cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.



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"Recent Issues" and "Rights" Page 22
(International Edition Page 25)

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Financial Times Monday November 11 1985

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OPTIONS

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Closing prices, November 8

Continued on Page 37

| Continued from Page 36 | | | | | | | | | | | | | | | | | | | |
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STOCKS - CLOSING PRICES

November 8

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| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | -1 1/2 | | |
| AirCorp | | | 16 | 17 | 21 1/2 | | 21 1/2 | | | AgRai | | | 1 | 1 1/4 | | 1 1/4 | 7 1/4 | -1 1/4 | | Wright | | | 6 | 20 | 5 1/4 | | 5 1/4 | | | Reart | A | 34 | 144 | 44 1/2 | 49 1/2 | | | |

OVER-THE-COUNTER

Nasdaq national market, closing prices November 8

[illegible]

Continued on Page 35

CURRENCIES, MONEY AND CAPITAL MARKETS

A failure in communication

BY COLIN MILHAM

Government and other high ranking officials are not always good at getting a clear message across. The last week Mr Paul Volcker and Mr Stephen Axilrod, of the US Federal Reserve, confused the markets about the direction of interest rates. The Japanese finance minister, created the impression that he does not wish to see a lower dollar by talking about stability at present levels.

This led to buying of the dollar, as dealers covered short positions taken out in expectation of a further weakening of the US currency. Confusion was created as various officials and senior bankers appeared to be having second thoughts on the benefits of a weaker dollar.

Mr Mieczyslaw Karaszewski, chief economist of the European American Bank, gave evidence before the US House of Representatives banking committee, and said that the recent Group of Five agreement to weaken the dollar was a mistake, and would lead to higher inflation. The presumed goal of significantly reducing the US trade deficit would not be met, because countries such as Japan and Germany were not prepared to take sufficient measures to stim-

£ IN NEW YORK

| | Nov. 6 | Prev. close |
|----------|-------------|-------------|
| Spot | 1.4310-4320 | 1.4100-4110 |
| 1 month | 1.40-030 | 1.38-040 |
| 3 months | 1.37-010 | 1.35-020 |
| 6 months | 1.34-000 | 1.32-010 |

Forward premiums and discounts apply to the U.S. dollar

late strong economic growth.

He said the US would continue to need substantial capital inflows in years ahead to finance the trade deficit, and should encourage a strong dollar.

At about the same time Mr Axilrod, an official of the Federal Reserve, said to the committee that a fall in the dollar could jeopardize progress made against inflation and raise questions about interest rates.

Earlier in the week Mr Volcker, Fed chairman, was rather ambiguous when talking about money supply and interest rates, but left the impression that there might have been a slight tightening of monetary policy.

All these comments came at a time when there was little else to stimulate the market. No major US economic statistics were released, but figures on October car sales pointed to stim-

appointing retail sales statistics this Thursday. An end to low rate car finance schemes in early October led to a sharp fall in sales of 14.1 per cent, and it has been forecast that retail sales for the month will be down by 2 per cent to 3.5 per cent.

Third quarter US Gross National Product growth is also expected to be revised down from last month's estimate of 3.3 per cent, on November 21. Depressing economic expectations renewed speculation about a cut in the Fed's discount rate, as the high level of the Federal funds rate in New York was regarded as technical, and largely ignored.

The remarks by officials in Washington and Tokyo then caused confusion, leading to short covering and costing the Bank of Japan and German Bundesbank something in dollar reserves, through intervention on Friday.

The present picture seems to indicate that the central banks are happy to see the dollar in the range of 134-136 against the DM and 120-122 against the yen. It remains to be seen whether the forthcoming US data and the Fed's attitude towards interest rates makes any difference to this view.

FINANCIAL FUTURES

POUND-STERLING (FOREIGN EXCHANGE)

| | Nov. 6 | Nov. 5 |
|----------|-------------|-------------|
| Spot | 1.4310-4320 | 1.4100-4110 |
| 1 month | 1.40-030 | 1.38-040 |
| 3 months | 1.37-010 | 1.35-020 |
| 6 months | 1.34-000 | 1.32-010 |

Nov. 6

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